

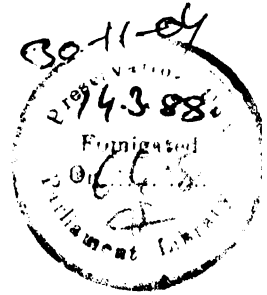
Tuesday, 27th February, 1934

THE
COUNCIL OF STATE DEBATES

VOLUME I, 1934

(8th February to 27th April, 1934)

SEVENTH SESSION
OF THE
THIRD COUNCIL OF STATE, 1934



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COUNCIL OF STATE.

Tuesday, 27th February, 1934.

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

MEMBER SWORN:

The Honourable Sir Alfred Alan Lethbridge Parsons, Kt., C.I.E. (Finance Secretary).

DEATH OF SIR CHARLES WATSON.

THE HONOURABLE THE PRESIDENT: Honourable Members must have read in this morning's newspapers the sad news of the untimely death of one of our esteemed colleagues, Sir Charles Watson. He only retired from service a few months ago. He was a distinguished member of the Civil Service and rose to the high office of Political Secretary. He was a Member of this House for over six years and was well known to many of you who are present here. Unfortunately his death has taken place soon after his retirement and he has not been able to enjoy either his well-earned rest or his pension. I have no doubt you all sympathise with his family in their heavy bereavement and I shall convey on behalf of all Members our sympathy and condolences to his bereaved family.

MESSAGE FROM THE LEGISLATIVE ASSEMBLY.

SECRETARY OF THE COUNCIL: Sir, a Message has been received from the Secretary of the Legislative Assembly. The Message runs as follows:

"I am directed to inform you that, in accordance with rule 36 (1) of the Indian Legislative Rules, the amendments made by the Council of State in the Bill to constitute a Reserve Bank of India, were taken into consideration by the Legislative Assembly at its meeting held on the 26th February, 1934, and that the Assembly has agreed to the amendments."

BILLS PASSED BY THE LEGISLATIVE ASSEMBLY LAID ON THE TABLE.

SECRETARY OF THE COUNCIL: Sir, in pursuance of rule 25 of the Indian Legislative Rules, I lay on the table copies of the following Bills which were passed by the Legislative Assembly at its meeting held on the 26th February, 1934, namely:

A Bill further to amend the Cotton Textile Industry (Protection) Act, 1930;

A Bill further to extend the operation of the Wheat (Import Duty) Act, 1931;

[Secretary of the Council.]

A Bill to continue for a further period the provisions made by certain Acts for the purpose of fostering and developing the Steel Industry and the Wire and Wire Nail Industry in British India; and

A Bill to amend the Indian Medical Council Act, 1933, for a certain purpose.

CONGRATULATIONS TO THE HONOURABLE RAI BAHADUR PROMODE CHANDRA DUTT ON HIS APPOINTMENT TO THE EXECUTIVE COUNCIL OF ASSAM.

THE HONOURABLE THE PRESIDENT: Honourable Members, I feel confident that you would all like me on behalf of the Council to congratulate our esteemed colleague the Honourable Rai Bahadur P. C. Dutt on his elevation to the high office of Executive Member of the Government of Assam. The Honourable Rai Bahadur has been for many years in this Council and has rendered good work. He has spoken very sparingly but when he has spoken his observations have always commanded our respect and attention. I wish him personally and on behalf of this Council all success in his new sphere of duties and I am very sorry we shall miss him from this Council.

THE HONOURABLE RAI BAHADUR PROMODE CHANDRA DUTT (Assam: Non-Muhammadian): Sir, I thank you and Honourable Members of this House for your kind congratulations and good wishes.

PRESENTATION OF THE GENERAL BUDGET FOR 1934-35.

THE HONOURABLE SIR ALAN PARSONS (Finance Secretary): I rise to present the statement of estimated expenditure and revenue of the Governor General in Council for the year 1934-35 in respect of subjects other than Railways.

2. There is more ground than usual to be covered this year. I propose therefore to leave for the most part the detailed explanation of variations in the estimates to the papers which will shortly be in Honourable Members' hands, and will confine my remarks to an exposition of the main figures of the budget and to the proposals of the Government of India which result from them. Even so, Sir, I must ask for your indulgence and that of the House if I trespass rather longer on their and your patience than is customary.

3. Honourable Members will recall that when Mr. Taylor presented the estimates last February we anticipated that 1932-33 would leave us with a surplus of 2,17 lakhs, and that in the current year after meeting all charges we should be able to apply 6,88 lakhs to the reduction or avoidance of debt in accordance with the scheme which has been in force since 1925, and still have a balance of 25 lakhs. In the event we did not do so well in 1932-33. Our surplus, chiefly because customs and salt revenues did not come up to the mark, was only 1,55 lakhs. This perhaps foreshadowed what was to come; for we now have to estimate that, in spite of an

unexpected repayment by the Persian Government of a pre-war debt of 38 lakhs, our revenue will fall short of our anticipations by 5 crores and 4 lakhs.

Though there are of course variations under other heads, as a whole they balance one another, and the short-fall can be attributed entirely to taxes on income and customs. Under taxes on income we now expect to get 98 lakhs less than our budget estimate and I fear we must plead guilty to having under-rated the effects of the depression on profits. Under customs there has been a moderate, but very welcome, revival in exports and re-exports of merchandise, which to the end of December exceeded those of the corresponding period of 1932-33 by 12 crores. This is I hope a portent of further recovery in future; as a result we should do better than our estimates of the receipt from export duties by 65 lakhs. Unfortunately imports, from which our main customs receipts are derived, have as a whole shown no similar indication of a revival; they are down in the nine months to the end of December by 17 crores. This means that we have to face a drop of about 6 crores in import duty below our budget estimates and, though the excise duties on motor spirit and kerosene are doing well, under the customs head as a whole there is a deficiency on the original estimates of 4,38 lakhs. Of the many items which contribute to this decrease, I need only mention four. Under the stimulus given by the heavy protective duty and the surcharge of 25 per cent. on it, there has been a more rapid turn-over from imported to indigenous sugar than even we expected; and though our budget estimates allowed for a drop of about a crore in the duty on sugar imports, we have now to assume that the drop will be about double this figure. We allowed also in our budget estimates for a drop of about a crore in the customs receipts from textile fabrics and yarn, but it is clear that this did not go nearly far enough and that the imports in 1932-33 were entirely abnormal. It seems probable that we shall fail to reach our estimates under this head by no less than 2½ crores. These two categories account for 3,77 lakhs out of the total deficiency of 4,38 lakhs. For the rest I propose only to mention the duty on manufactured tobacco which we now expect to bring in 28 lakhs instead of 50, and the duty on silver. Imports of silver have been entirely negligible and the budget estimate of 25 lakhs is now reduced to a lakh.

4. Against this drop of just over 5 crores in our revenue estimates we can set a saving of 2,20 lakhs in our estimates of expenditure. Again, I can leave minor variations to the papers which will be circulated; the saving is entirely accounted for by two factors. His Majesty's Government have not required us to pay the instalment of 88 lakhs due to them on account of war debt and we have obtained a reduction of 1,78 lakhs in defence expenditure as a result of the award of the Capitation Rate Tribunal. Our net defence expenditure, which four years ago was over 55 crores, is now rather less than 44½ crores. I will not attempt a recital of the measures by which this most substantial reduction has been obtained—Honourable Members will find a full description in Sir George Schuster's speech. All I will say is that, welcome as the relief obtained from the Tribunal's award is, it is only a fraction of the assistance which the Government of India have obtained in a very difficult time from a reduction of defence expenditure and that for the great bulk of that assistance we are indebted to the strenuous efforts made by His Excellency the Commander-in-Chief and all his officers to help us. I am sure the House will wish warmly to acknowledge that indebtedness.

[Sir Alan Parsons.]

5. Well, Sir, that is the position for this year. We had hoped to pay our way and have a balance of 7,13 lakhs, 6,88 lakhs of which we proposed to utilise for the reduction or avoidance of debt. We are spending 2,20 lakhs less than we expected but our income has shrunk by 5,04 lakhs. To the extent therefore of 2,84 lakhs we have not done as well as we hoped, and on present estimates our available balance, before we make provision for the reduction or avoidance of debt, is 4,29 lakhs instead of 7,13 lakhs.

6. Though our hopes have not been entirely fulfilled—that is perhaps too much to expect in present times—I trust Honourable Members will not derive from these figures any reason for despondency. I certainly do not myself. I have already mentioned one encouraging sign, the increase in our exports: Sir Guthrie Russell mentioned a second a few days ago, the growth in railway goods traffic. There are other good grounds for an increased confidence, to which I will briefly refer, for they lead up to and justify the initial proposal that I have to lay before the House tonight. How have the public finances of India fared since the crisis of 1931? To what extent has she so far weathered the storm? To begin with, taking our estimates for the current year, she has not only paid her way in the three years from 1931-32 but will have accumulated a surplus of 7,82 lakhs for the reduction of her debt, or the strengthening of her balances. I wonder how many other countries in the world can show so sound a budgetary position; but this is by no means all. During the same three critical years, her external reserves in gold and sterling securities have increased by over 48 crores, quite apart from the potential profit on gold which at present is about 27 crores; and the proportion of these reserves to the note issue has been raised from 40 to 60 per cent. In September, 1931, the total debt, rupee and sterling maturing within five years was over 886 crores: at the end of next month we expect the figure to be only 166 crores, so that near maturities will have been reduced by 170 crores. And by conversion operations and the improvement in credit which has followed a sound budgetary policy the burden of interest has been reduced by well over four crores.

To illustrate the inherent soundness of our debt position there are a few more figures that I should like to quote. In making the comparison I exclude variations in cash balances, which may be described generally as till money. At the end of next month we expect the total indebtedness of the Government of India to be about 1,212 crores, an increase of 293 crores or 32 per cent. over the figure ten years ago. But on the same date the interest bearing assets of the Government will be 978 crores, an increase in the ten years of 814 crores, so that since 1924 the debt not covered by assets—what I may perhaps describe as the unproductive debt—has been reduced by 20 crores and at the beginning of next financial year will amount to only 234 crores out of the total of 1,212 crores.

At the same time, though our total debt has increased by only 32 per cent. and our uncovered debt has actually decreased, by the operation of the scheme for debt redemption which was settled in 1924 the provision to be made from revenue for this purpose has grown by 82 per cent. from 8,78 lakhs to 6,89 lakhs. This increase is of course particularly burdensome at a time when we are, I am confident only temporarily, receiving no contribution in relief of the taxpayer from our principal productive asset, the Indian railways. In the circumstances, we have had to consider very

carefully whether in a time of abnormal depression, when what should ordinarily prove a profitable investment is giving us no return, we are justified in maintaining a rate of debt amortization which, however, appropriate to good times, must throw an additional burden on the already heavily burdened payer of taxes. The conclusion we have reached is as follows. We cannot at present give a considered opinion what the permanent basis of the future provision for the reduction and avoidance of debt should be; but in view of the strong position which has been built up by past efforts and the high proportion of our debt which is invested in undertakings that should again become profitable, it is justifiable and in no way offends against financial prudence for us to reduce the provision for reduction and avoidance of debt to 3 crores both in the current year and in 1934-35. We propose to do so. The House will observe that, if we take the figure for uncovered debt alone, this represents a provision of over $1\frac{1}{2}$ per cent.

7. Deducting this provision of 3 crores from our current year's estimated surplus of 4,29 lakhs, we are left with a net surplus of 1,29 lakhs. We propose to transfer this surplus, whatever the final amount may prove to be, to a special fund which will be used for assisting the provinces which have suffered from the recent earthquake, chiefly of course Bihar, though we may find it necessary to devote some part of the fund to assisting other provinces such as Bengal. The Council are, I am sure, anxious to know what our definite proposals for assistance to Bihar are, and it will, I think, be convenient if I describe them at this stage. They have been concerted in close discussion with the Provincial Government.

8. The necessary steps to give immediate relief to sufferers from the earthquake are, as Honourable Members are no doubt aware, being energetically pursued, the money for them being for the most part provided from the Viceroy's and other relief funds; but there is one direction in which the Government of India desire to extend their help. The destruction of seven sugar factories in the north of Bihar and serious damage to two others has deprived the growers of cane in this area of their ordinary market for about fifteen million maunds of cane. It is hoped that the bulk of this cane can be got away in time to factories in the south of Bihar or in the east of the United Provinces, and the Railways, chiefly of course the Bengal and North Western Railway, are taking strenuous steps to enable this to be done and are prepared to quote very low concessionary rates of freight, so that a reasonable price should be secured to the grower. But cane has to reach the factory within about thirty-six hours of being cut or it loses its juice, and it will not be possible to move part at any rate of the crop to other factories in time. In order to meet this difficulty the Provincial Government are distributing a large number of crushing mills and pans with which to turn the cane into gur; and when I was in Patna they anticipated that they might be able to deal with about six million maunds of cane in this way. The Government of India have undertaken to bear the whole cost of this measure from central revenues: it will probably amount to about 5 lakhs.

The more difficult problem, however, the solution of which will demand expenditure on a much larger scale, is the problem of permanent reconstruction; and I can perhaps most easily explain to the House the extent of the problem and the manner in which we propose to deal with it if I divide it into four main heads. Where possible I will give an idea of the sums that are likely to be required, but I must make it clear that as yet

[Sir Alan Parsons.]

only very rough estimates can be framed and that the figures I give are given more by way of illustration than as representing any final conclusion of what the bill will be.

There is first the very considerable damage to the Provincial Government's own buildings and other property. For example, I understand that the Dhaka Canal has suffered considerably. A rough estimate of the sum required for rebuilding and repair is a crore of rupees. Here our proposal is that the Government of India should relieve the Provincial Government of half the cost of reconstruction and repair, whatever the amount may prove to be, and should advance the remaining half to the Provincial Government through the Provincial Loans Fund. We propose to treat as capital expenditure by the Government of India the half share which we are taking on our own shoulders.

Next there is the similar damage to the property of local bodies in the affected area. At the best of times these bodies have meagre incomes; their balances are small; and though it may be found possible to ask them to contribute their share towards the cost of reconstruction by taking over the responsibility for some small particular measure, for example, the clearance of wells, it is perfectly clear that the assistance that they can render is negligible and the main task of reconstruction is completely beyond their power. So far, in fact, from their being able to render any material assistance, the municipalities have lost for the time being their main source of income in the house tax, and it will be necessary to equip them, and possibly to some extent the local boards too, with funds with which to carry on their ordinary duties until their revenues recover. For both these purposes, for the reconstruction and repair of local bodies' property and for placing them in funds until their incomes recover, we propose to make a free grant from central revenues, and this also applies to the money required for rebuilding and repairing aided schools in the earthquake area. At present we estimate very roughly that the amount required will be something over one crore, and we propose to meet it from the special fund that I have mentioned, to be formed out of this year's surplus.

Next—and a very important item—I am not however attempting in any way to assign an order of importance to the different items—comes the question of assistance to private individuals. The destruction of their small houses and shops must have deprived many of the poorer inhabitants of North Bihar of their sole material asset; they have been left with neither money nor credit with which to start rebuilding; and it would be only cruelty to offer them loans which they could never hope to repay. Assistance to these people must in our view take the form of free grants, and we think that these free grants to the poorest classes are eminently an object on which the Viceroy's and other relief funds should be expended in so far as they are not utilised for immediate relief. No one who has had an opportunity as I have done of seeing even hurriedly the devastation which the earthquake has wrought in the small townships of North Bihar could fail to recognise how wide the scope for private charity in this direction is. I have no doubt at all that there will be a full response to the need.

It is not only the poorest classes, however, who have suffered from the earthquake. There are very many who would not be fit or willing recipients of charity but who would be quite unable to rebuild their houses

unless they can procure money on easy terms with which to do so. Unfortunately I am not today able to announce to the Council the exact plan that will be adopted for granting loans in these cases. Though the scheme is under active consideration between the Provincial Government and ourselves, and though I have no reason to anticipate any divergence of opinion between us, the details are not yet all settled. I can say this however that it is our intention to make available to the Provincial Government, on terms that will not be burdensome to them, whatever sum may be found to be needed for this purpose. I am afraid I can give no estimate of what the amount will be, but whatever the amount will be, we are prepared to find it.

Lastly, there is the problem of agricultural land. The countless geysers which spouted up in the train of the earthquake have deposited a layer of infertile sand of a depth varying from one or two inches up to four feet or more over a wide area, particularly to the north of Muzaffarpur and Darbhanga. Until a detailed survey has been made of this area it is impossible to say what the extent of the damage has been, though I am glad to say that the latest information we have received is that it may not have been so serious as was at first feared. Until the survey has been made it is of course still more impossible to say what measures can be taken to rectify the damage and what their cost will be. All I can say is that we consider the Provincial Government's balance in their Famine Relief Fund can properly be made use of to restore this damage and that to the extent to which it is insufficient we intend to give our financial support to the Provincial Government in any measures that may be decided upon.

To sum up, the assistance which we offer to Bihar is as follows. We propose to give free grants to cover the cost of restoring the property of local bodies and of placing them in funds till their revenues recover; to rebuild aided schools; and to provide the crushing mills and other equipment for dealing with part of the surplus cane crop. We propose to meet this expenditure from the special fund to which this year's surplus will be transferred; but since much of the rebuilding will unfortunately have to be postponed until after the rains, when more knowledge will be available whether the drainage of the country has altered and foundations for buildings and bridges are secure, we are at present assuming that only 75 lakhs will be needed for these purposes in 1934-35, though if more is found to be needed it is our intention to provide it. We are taking on ourselves as capital expenditure half the cost of restoring the property of the Provincial Government, the total cost being at present estimated at about a crore; we are undertaking to advance the money needed for loans to individuals to the Provincial Government on terms that will not be onerous to it; and we are undertaking to bear the cost of such measures as may be found practicable and desirable to recondition agricultural land in so far as the Famine Relief Fund is insufficient. No reliable estimate of the amounts needed for these purposes, except, possibly the Provincial Government's buildings, is at present available, but we are assuming in our ways and means estimate that there will be a disbursement in 1934-35 of 2½ crores and if more is found to be needed before the end of the next year it will be provided.

I trust these proposals will meet with the approval of Honourable Members. (Applause.)

[Sir Alan Parsons.]

9. I can now turn to our prospects for next year. I will use the net figures for they are, I think, the easier to follow. On the basis of present taxation, we put our revenue at 78 crores 8 lakhs; and estimate our expenditure, including the 3 crores for reduction and avoidance of debt, at 79 crores 61 lakhs. This year's surplus of 1,29 lakhs is turned into a deficit of 1,53 lakhs, a total deterioration of 2,82 lakhs.

10. There is little that I need say about our expenditure estimates, which, as is already known, allow for the continuance of the cut in pay for one further year. We have maintained and are maintaining a vigilant control over all new revenue expenditure and are still on the search for further economies. As a result, taking net figures for interest and defence, we are able to estimate our expenditure apart from debt reduction at 76 crores 61 lakhs, only 2 lakhs more than this year's revised estimate, though we have to find about 22 lakhs for increments and about 7 lakhs for a few new items. And we achieve this result although we are providing 58 lakhs for a half year's instalment of the interest on our war debt against nothing this year, and have to find 50 lakhs more than in the current year for the payment of bonus on cash certificates—a subject which Honourable Members will find fully dealt with in the Honourable Finance Member's speech. We have been assisted in obtaining this result partly by a decrease of 29 lakhs in our opium expenditure corresponding to a decrease which we have to anticipate in receipts, and partly by an improvement of 38 lakhs in the financial position of the Posts and Telegraphs Department which is almost entirely due to the strenuous efforts taken by the department to secure economy in administration and not to an increase in revenue. And here I will break off my review of next year's estimates to explain the first of our proposals for next year. It is not a proposal for meeting any part of the deficit.

We are naturally very concerned at the drop in postal and telegraph traffic and are anxious to do what we can, without making our revenue position more difficult, to stimulate a recovery, and we therefore propose as an experiment to make the following changes in postal and telegraph rates.

First of all, we propose to reduce the charge on letters not exceeding half a tola in weight from $1\frac{1}{2}$ annas to 1 anna, leaving the charge on letters weighing over half a tola unchanged. We think that this change will benefit both the business community and the poorer class of letter writers. It will cost us, even allowing for some increase in traffic, 27 lakhs in the first year, but if the experiment succeeds this loss should be recovered in the second year, and thereafter there should be a net gain in revenue.

Secondly, we propose to remit the extra pie representing the cost of manufacturing the envelope which has been charged for embossed envelopes since 1931. This again is a change which will benefit the ordinary letter writer. We expect it to cost us $2\frac{1}{2}$ lakhs.

Thirdly, in order to stop a loss of revenue which is at present occurring through the diversion of post card traffic to book packet traffic, we propose to raise the initial charge on inland book packets not exceeding five tolas in weight from 6 pies to 9 pies. This should give us 5 lakhs more revenue.

Lastly, we propose to substitute for the present minimum charge for ordinary telegrams of 13 annas for a message of 12 words a minimum charge of 9 annas for a telegram of 8 words; and similarly for express

telegrams to substitute for a minimum charge of Rs. 1-10-0 for 12 words a minimum charge of Rs. 1-2-0 for a telegram of 8 words. The charge for each additional word will be 1 and 2 annas, respectively. This will cost us 3 lakhs in the first year, but we hope to get the loss back in the second.

The net loss next year from these proposals is 27½ lakhs, and in present circumstances we could not contemplate their introduction if it meant an addition of 27½ lakhs to the deficit. But there is an expedient, which we think justifiable, by which the loss can be neutralised. Ever since the accounts of the Posts and Telegraphs Department were organised on commercial lines the sum set aside each year for depreciation has been much larger than the amount annually spent on renewals, so that the balance to the credit of the depreciation fund has been mounting very rapidly. This rapid growth suggests that the credits to the depreciation fund under the present system are larger than are really required and we propose to review the whole question next year. Meanwhile, in view of the large balance in the fund, we consider that we are warranted in reducing the contribution from the figure of just over 36 lakhs, which would result from the operation of the existing rules, to a figure of a little less than 8½ lakhs which is the amount actually required for renewal and reconstruction of assets. In this way we shall save in 1934-35 an amount which is about the equivalent of the reduction in revenue from the proposed reorganisation of rates. I must make it clear that a reduction of the depreciation contribution to this extent is a temporary expedient that cannot be repeated, and that consequently the proposed reorganisation of rates is also purely an experiment. There are definite possibilities of further economies which after next year may offset the loss of revenue and the Posts and Telegraphs Department will do their best to effect them. But if they do not materialise or if traffic does not respond sufficiently to this reduction of rates, the necessity for again increasing the rates to such extent as may be necessary will have to be faced.

11. To return to the review of next year's estimates, of the deterioration of 2,82 lakhs compared with this year only 2 lakhs is, as I have explained, due to an increase in expenditure; a decrease in revenue accounts for the remaining 2,80 lakhs, and the drop can be entirely ascribed to two heads, opium and customs. Elsewhere smaller variations balance each other. Under opium as a result of the policy adopted in 1925 with a full recognition that it meant a steadily declining revenue, we have to face a drop of 64 lakhs. Under customs our figure for 1934-35 is 2,25 lakhs less than that for this year and here, without going into too much detail, I must give a brief explanation of the reasons which have compelled us to adopt a lower figure. It is not that we are pessimistic about the prospects of trade; on the contrary we think the chances of a moderate recovery justify us in anticipating a net increase of about a crore and two-thirds in the customs revenue from all items except those that I will specifically mention. But the very rapid development of sugar manufacture in India compels us to face a reduction of no less than 2,95 lakhs below the reduced figure of the current year in the duty on sugar imports; we can no longer expect as a slight compensation large imports of plant for the new sugar factories, and have had consequently to reduce by 32 lakhs the estimate of import duty on machinery; and our estimates of land customs are down by 65 lakhs, again largely because of declining sugar imports, though a payment of arrears amounting to about 32 lakhs is also partly responsible.

[Sir Alan Parsons.]

To sum up, the increase of 1.67 lakhs which we might otherwise have anticipated is turned into a decrease of 2.25 lakhs mainly by a reduction of 3.28 lakhs in our revenue from sugar—2.95 lakhs under sea customs and 33 lakhs under land customs—and for the rest by the loss of 32 lakhs representing duty on sugar machinery, and of 32 lakhs arrear payments received in the current year. The point I wish to emphasise is that the decline in the customs revenue, which more than accounts for the whole deficit, is not due to any foreboding of a further deterioration in the general trade position; quite the contrary. It is due to the marked success which has attended a considered policy of the Government of India and of the Legislature, the object of which was to encourage the growth in India of an important industry the raw product of which is obtainable in ample quantity in India.

12. The deficit, then, on the basis of existing taxation is 1.53 lakhs. We have one proposal for next year which will slightly add to it. We have been carefully watching the position of the export trade in raw hides, and find that, while imports of Indian hides into Hamburg are now less than a quarter of the pre-war imports, those from other sources are still higher than in 1912. There was a little improvement in shipments to Germany in the first half of 1933, but since September there has been again a serious deterioration. We have decided therefore to remove the export duty, which has only been retained purely as a revenue measure and is only expected to yield 5 lakhs next year—and we should be lucky if we got even that. We are leaving the export duty on skins untouched; there has been an encouraging increase in exports this year.

As a result, the gap between revenue and expenditure next year has been raised to 158 lakhs. How shall we fill it?

13. I imagine that Honourable Members have derived from what I have already said an inkling of what our main proposal will be. Sugar which in the best year gave us a customs revenue of over 10 crores and but for the protective duty might be expected to subscribe $7\frac{1}{2}$ or 8 crores to the exchequer, will produce only just over 2 crores next year, while thereafter we must look for a practical extinction of imports. When it is realised that the protection given to the sugar industry has cost the central revenues a sum which is already of the magnitude of 6 crores—a considerably larger sum than that we derive from the surcharges on taxes on income, the tax on small incomes, and the cut in pay combined—no one will, I think, deny that it is reasonable to look to sugar as a means to cover the present deficit, subject always to one proviso. We should do nothing to impair the measure of protection granted to the industry by the Government of India and the Legislature on the advice of the Tariff Board. Now, as Honourable Members are aware, the basic protective duty recommended by the Tariff Board was Rs. 7-4-0 per cwt. with power to Government to increase this duty by 8 annas a cwt. if Java sugar was being imported into Calcutta at a price less than Rs. 4 a maund. That condition was recently fulfilled, and in present conditions it may be taken that the measure of protection recommended by the Tariff Board and accepted by the Government and the Legislature amounts to Rs. 7-12-0 per cwt. But owing to the 25 per cent. surcharge the actual import duty is Rs. 9-1-0 per cwt. or Rs. 1-5-0 per cwt. above the protection which the Tariff Board, Government and the Legislature considered necessary; and incidentally the stimulus given by this extra protection is so great that

there is a real danger of over-production in this country and the establishment of more factories than the internal market can support, in spite of the very definite warning given last year by the Honourable Finance Member to those engaged in this industry that they could not count on a continuance of the existing abnormal measure of protection.

We propose therefore to impose an excise duty of Rs. 1-5-0 per cwt. on all issues, after the 1st April next, of sugar, including khandsari, from factories coming under the Indian Factories Act. We reckon that this will produce 1.47 lakhs in 1934-35. At the same time we are particularly anxious that the excise duty should not hit the cultivators of cane, who, as it is, do not appear to have received invariably the advantage we intended them to derive from our protective policy; and a Bill will be brought forward this session enabling Provincial Governments to apply schemes for enforcing a minimum price for cane to be paid by the factory to the grower. Out of the proceeds of the excise duty we propose to set aside the yield of one anna, or on our estimates 7 lakhs, for distribution among the provinces in which factory sugar is produced, in order to assist the organisation and operation of co-operative societies among cane growers, or other action designed to secure a fair price for cane to them. So we expect a net 1.40 lakhs from the new excise duty. It will be brought forward in a separate Bill and not in the Finance Bill.

14. Sugar will then give us 140 lakhs out of the deficit of 158 lakhs. Where shall we look for the residue? Honourable Members will be relieved to hear that they have learnt the worst, and that we think we can obtain the remaining sum needed to balance the budget by reductions and not increases of taxation. I mentioned earlier that the customs receipts from imports of manufactured tobacco will be 22 lakhs below the estimates this year; and we should have to expect a further decline of 8 lakhs next year if no change in the rates of duty were made. This is because under our present tariff, with the two surcharges which we have had to make, it pays firms controlling factories both in India and abroad to transfer to India the manufacture of certain brands of cigarettes made chiefly or wholly from imported leaf rather than as before to import them. The type of cigarette I have in mind may perhaps be described as the Gold Flake class. By adjusting the relation between the import duty on raw leaf and finished cigarettes we expect to induce a revival of imports which will bring us back 30 lakhs. The actual adjustments are a little complicated and I will leave them to the papers to be circulated; but though they may slightly increase the duty on the most expensive luxury class of cigarettes, they will reduce the duty on the medium priced class which is now assessed at Rs. 10-10-0 per thousand by an amount which is roughly equivalent to the second surcharge, namely, Rs. 2-2-0 per thousand. There should therefore be no increase in cost to the consumer.

We also propose to reduce the excise and import duties on silver from the present rate of 7½ annas per ounce, of which 1½ annas are surcharge, to 5 annas an ounce. As I have already mentioned, imports for the time being have practically ceased, and if the present rate of duty is continued we can expect to get only 1 lakh next year, but we think it reasonable to anticipate a larger import on account of the reduction of duty, and an increase thereof of 4 lakhs in our estimates. Our main reason for this proposal is not, however, the small addition it may bring to our revenues. Though in present conditions the high rate of duty cannot be held responsible for the practical cessation of imports, it would certainly

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operate as an obstacle to legitimate trade and as an incentive to smuggling when India's demand for silver revives and then the existence of this high rate of duty might diminish rather than increase our revenue. At the same time, we think it most desirable, particularly now that the Legislature has ratified the Silver Agreement reached at the World Economic Conference, to give an earnest of our desire to co-operate with other countries in measures calculated to improve the price of silver. Lastly, as Bombay prices for silver have recently been below London parity by more than the equivalent of $2\frac{1}{2}$ annas per ounce, we think the reduction can be made without necessarily affecting the Bombay price at all or consequently any damage to the internal price. In order not to disturb the market we propose to give immediate effect to this reduction by notification.

15. With 140 lakhs from sugar, 30 lakhs from manufactured tobacco and 4 lakhs from silver, we have filled the gap of 158 lakhs between revenue and expenditure and are left with a small surplus of 16 lakhs. This surplus will be raised to 19 lakhs as a result of two further proposals which I have to place before the Council, but before describing them I must say something about the ways and means position.

16. The two questions with which the ways and means position of the budget deals—our borrowing to meet capital requirements or to redeem maturing debt and our purchases of sterling to meet sterling requirements of the Secretary of State or to strengthen the currency reserves—are closely linked together because we have debt both in India and in England and we have to adjust both programmes so as to secure the best results from the point of view both of revenue, and of currency stability. I will deal with our borrowing programme first. It has been a very satisfactory year and we have been able to improve substantially on the budget forecast. I will leave details to a study of the figures in the Budget Statement, but briefly the result for the current year is as follows. In India we have borrowed just under 81 crores and paid off maturing debt of a little over $42\frac{1}{2}$ crores; in England we have floated loans of nearly £22 million and paid off loans amounting to a little over £14 million. We have been helped by large receipts amounting to nearly 17 crores from Post Office Cash Certificates and Savings Bank deposits and this in spite of a reduction from 8 to $2\frac{1}{2}$ per cent. in the Post Office Savings Bank rate of interest and material reductions in the yield on Post Office Cash Certificates. In consequence, on our estimates which, as Honourable Members know, have to be prepared several weeks before we present the Budget, and may therefore be materially exceeded, we expect to be able to strengthen our position by replacing about $17\frac{1}{2}$ crores of *ad hoc* treasury bills in the Paper Currency Reserve by sterling securities.

The curtailment of capital outlay, which in the current year will be less than $4\frac{1}{2}$ crores on railways and provincial requirements combined, has assisted us considerably in securing this result, and also in improving our credit. We think, however, that the time has arrived when some relaxation of the restrictions on capital expenditure is not only possible but desirable. We are therefore, as Sir Guthrie Russell informed the Council, allowing next year for an increase of 4,28 lakhs in the capital expenditure on railways and for the allotment of an additional 2,25 lakhs to provinces,

chiefly for loans for reconstruction in Bihar. Even so, we anticipate that next year we could pay off the only loan maturing either in England or in India, the 4½ per cent. 1934, of which about 13 crores are outstanding, without any fresh borrowing. On the other hand, it must be remembered that these ways and means estimates are not a programme; they are intended merely to show our position, and if conditions are favourable we naturally leave ourselves the fullest latitude to take advantage of them either to improve our credit abroad or to fund our liabilities here.

The remittance position in the current year is also satisfactory. Except for a slight temporary set-back in October-November, exchange has been strong throughout. It is always very difficult at this time of year to estimate even for one month ahead what our sterling purchases are likely to be, and the difficulty is even greater this year because of the important developments that have taken place in the international currency situation in the last two months as a result of American policy. One of the results has been to increase the price of gold as expressed in sterling and this has revived the exports of that metal from India. There has also in the last month been a definite rise in the price of India's more important export staples such as cotton, hessians and rice. These developments have enabled us to make large purchases of sterling in the last few weeks. When we prepared our figures we estimated that we would be able to purchase £37½ millions during the current year. As a matter of fact we have already reached that total. If we buy more, it will naturally be reflected in an increase in the outstanding of treasury bills in this country which at present represent a very cheap form of borrowing for us, with a corresponding decrease in the treasury bills held in the Paper Currency Reserve.

On these estimates, if we devote the surplus sterling which the Secretary of State does not require for treasury purposes to the strengthening of our reserves, we should be able to replace treasury bills in the Paper Currency Reserve by sterling securities to the extent of 17½ crores, and should close the year, as I have already mentioned, with our note issues covered by external assets to the extent of about 60 per cent. if gold is taken at its statutory value, or of 75 per cent. if it is valued at its present market price. When it is remembered that the Reserve Bank Act provides that the initial cover to be handed over by Government on the inauguration of the Bank should be 50 per cent. the strength of our position in this respect will be realised. These estimates do not provide for any expansion of the currency. They assume that we will merely be replacing internal assets by external. Should the currency position of the country make such expansion desirable, there will naturally be consequential alterations in the estimates.

As regards next year, we estimate the purchase of sterling at £26·7 millions to fit in with our programme. Naturally here too, if we buy more, we shall utilise the surplus in strengthening our position.

17. If it were possible only to consider the Central budget, that, Sir, would complete what I have to say tonight; but the Government of India cannot afford entirely to overlook the position of the provinces for whom they act as bankers and whose financial stability has some repercussion on the credit of India as a whole. Now though it is not for the Government of India ordinarily to relieve Provincial Governments of their financial problems, there is one case in which, I think I may say by

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common consent, it is recognised that they are beyond the resources of the Provincial Government and that special help is required. I refer of course to Bengal, which since 1930 has been incurring deficits at the rate of about 2 crores a year, so that unless remedial action is taken she will soon be staggering under an unmanageable load of debt. Without in any way prejudging the plan that may be adopted by the British Parliament for constitutional reforms, we have come to the conclusion that Bengal ought, in advance of that plan, to be helped out of her financial difficulties. At the same time it is clear from the figures which I have already laid before the House that we cannot assist her out of our existing revenues and that, if we are to do so, those revenues must be fortified. Moreover, though we must not prejudge the constitutional plan, we must do nothing that is likely to prejudice it; our action should therefore take a form which is likely to fit in with the new constitutional arrangements. The plan that we propose is as follows. We are asking the Legislature in a Bill which will be introduced in a few days' time to agree to the imposition of a match excise duty at the rate of Rs. 2-4-0 per gross of boxes on matches made in British India, with, of course, a revision of the customs duty so as to maintain the existing measure of protection. The manufacture of matches can easily be transferred at little cost from one place to another, and this proposal is only feasible because we have obtained the co-operation of the great majority of the Indian States, who have expressed their willingness to recover a corresponding excise duty in their territories if matches are either now or in the future manufactured there, the proceeds of both the British Indian and the States duties being paid into a common pool and divided on a population basis. The Bill will of course include power to prohibit imports of matches produced in any State that does not come into this agreement. I must further make it clear that this agreement with the States only covers the period up to the introduction of Federation; neither their nor our position after Federation will be in any way prejudiced by it. In a full year we estimate the total proceeds of the excise duty for the whole of India at 3 crores, of which on a population basis 70 lakhs will go to the States and 2,30 lakhs to British India. In 1934-35 we can only expect to get 11 months' duty, or for British India 2,10 lakhs. Out of this 2,10 lakhs, we shall have to give 18 lakhs to Burma to recoup her for a consumption duty of 12 annas per gross of boxes which under existing provincial legislation is in force up to March 31, 1935, but will be repealed when our own match excise duty comes on. The net addition to central revenues next year by this proposal is therefore 1,92 lakhs.

With our resources strengthened in this way, we propose to hand over half the jute export duty to the jute producing provinces; Bengal will of course receive the lion's share though Assam and Bihar and Orissa, which are both for different reasons in difficulties, will benefit to some extent. The distribution between these three provinces will be made on the basis of average production over the past five years. On our estimates, half the export duty amounts to 1,90 lakhs, from which a small sum of a lakh must be deducted for cost of collection. On this estimate Bengal will receive about 1.67 lakhs, Assam about 9½ lakhs and Bihar and Orissa 12½ lakhs; and I must make it clear that this special assistance to Bengal is conditional on the Provincial Government satisfying us that they are taking every step that is possible on their own account to restore, with

this assistance, financial equilibrium. I need say little, I think, to justify the much smaller benefit which Assam and Bihar and Orissa will derive as a corollary of this proposal. The position of Assam is so difficult that for their part the Government of India do not dispute that she may have a claim for special assistance. To Bihar and Orissa no one at present is likely to grudge it.

18. My task, Sir, is now done. All I still wish to say is this. The proposals I have had the honour of laying before the Council are not haphazard expedients designed merely to meet the temporary difficulty of an unbalanced budget. To the extent to which we have had to resort to fresh taxation to secure equilibrium between central revenue and expenditure we have done so in a form which, without impairing the measure of protection which the Legislature decided that an important industry should receive, will be a suitable permanent addition to our resources and broaden the basis of taxation. Within the limits of our power we have begun to lessen the burdens of the community by the reductions in Postal and Telegraph rates and by the removal of the hides export duty. By relieving Bihar of practically the whole cost of restoring the damage caused by the earthquake we prevent her accumulating a load of debt with which she might find it most difficult to deal hereafter; and by our proposals for assistance to Bengal we not only apply a remedy to a position which is rapidly becoming dangerous, but we do so in a way which cannot fail to facilitate future constitutional reform. Our proposals throughout represent a definite and considered plan, the aim of which is to preserve and strengthen the sound position which past sacrifices have built up for the finances of India, and to do so in a way that should help and not hinder the impending constitutional changes. This is an aim for which support will, I am confident, always be forthcoming from Honourable Members; it is for the fulfilment of it that I commend our proposals to the House. (Applause.)

STATEMENT OF BUSINESS.

THE HONOURABLE KHAN BAHADUR MIAN SIR FAZL-I-HUSAIN (Leader of the House): It is not proposed, Sir, to ask the Council to meet again before Monday next which, as Honourable Members are aware, has been allotted for the general discussion of the Budget. The four small Bills which have been laid on the table today will be taken up on Tuesday next week.

THE HONOURABLE THE PRESIDENT: Before I adjourn the Council I have to inform Honourable Members that, in view of the Party at the Viceroy's House on Monday next, which all Honourable Members will, I understand, attend, I have decided that the meeting on that day for the general discussion of the Budget will commence at 10 A.M. and that the questions which would ordinarily be put down for that day will be held over to the following day.

The Council then adjourned till Ten of the Clock on Monday, the 5th March, 1934.