

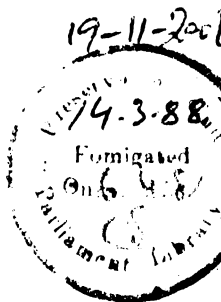
Thursday, 4th March, 1937

THE
COUNCIL OF STATE DEBATES

VOLUME I, 1937

(16th February to 8th April, 1937)

FIRST SESSION
OF THE
FOURTH COUNCIL OF STATE, 1937



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1937.

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COUNCIL OF STATE.

Thursday, 4th March, 1937.

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

MEMBERS SWORN.

THE HONOURABLE SIR Suleman Cassum Haji Mitha (Bombay Presidency : *Muhammadian*).

THE HONOURABLE MR. Arthur Kirke Smith (Government of India : *Nominated Official*).

. QUESTIONS AND ANSWERS.

RENEWALS OF CONTRACTS IN REGARD TO COMPANY-MANAGED RAILWAYS.

35. THE HONOURABLE MR. NARAYANDAS GIRDHARDAS : (a) In the case of the recent renewals of contracts in regard to Company-managed Railways, why did Government act against the policy proposed and accepted in the Legislature over a decade ago and given effect to in the case of such systems as the G. I. P., E. I. and Burma Railways ?

(b) Are Government prepared to give an assurance that the recent renewals of contracts do not mean a departure from the policy accepted and carried out in the case of the G. I. P., E. I. and other Railways ?

THE HONOURABLE SIR GUTHRIE RUSSELL : (a) and (b). I would invite the attention of the Honourable Member to the reply given in the Legislative Assembly by the Honourable Sir Joseph Bhore on the 5th of April 1935 to Mr. Ahmed Ebrahim Haroon Jaffer's starred question No. 1530.

RESIGNATION OF SIR OSBORNE SMITH.

36. THE HONOURABLE MR. NARAYANDAS GIRDHARDAS : (a) Are Government aware of any mystification in the public mind about the resignation of Sir Osborne Smith ?

(b) Are they aware of conflicting reports about Sir Osborne Smith's resignation current in India ?

(c) Are they aware of reports in conflict with the appreciation expressed both by Government and by the Central Board of the Reserve Bank at the time of his resignation ?

(d) Do Government propose to issue a communiqué stating the full fact ?

(e) If the answer to the above is in the negative, do Government propose to order a non-official or judicial enquiry ?

THE HONOURABLE MR. J. C. NIXON : The Government have nothing to add to the communiqué which appeared in the Press on the 30th of October last.

OPENING OF RAILWAY LINES CONNECTING CERTAIN PLACES WITH THE EASTERN BENGAL RAILWAY.

37. THE HONOURABLE MR. KUMARSANKAR RAY CHAUDHURY :

(a) Will Government be pleased to state whether they contemplate the opening of railway lines between—

(i) Aricha and Dacca ;

(ii) Issurdi and Sodhgunj *via* Pabna ;

(iii) Barisal and any other railway station on the E. B. Railway ?

If so, when and if not, why, and what are the alternative proposals, if any, to connect those places ?

(b) Whether any estimates were ever prepared for the construction of the above railway lines and whether they have been given up. If so, what are the various reasons for doing so ?

(c) Whether the construction of a motor road between Aricha and Dacca is in contemplation by Government and, if so, how will the difficulties set up against the construction of the railway line be avoided?

(d) What representations, if any, did the steamer companies plying between Goalundo and Naraingunj make on the Aricha-Dacca railway scheme ?

THE HONOURABLE SIE GUTHRIE RUSSELL : The required information is being collected and a reply will be laid on the table in due course.

NUMBER OF CADETS ADMITTED TO THE TRAINING SHIP " DEFFERIN ".

38. THE HONOURABLE MR. GOVINDLAL SHIVLAL MOTILAL :

(a) Will Government be pleased to state if the number of cadets that were admitted to the Training Ship " Dufferin " up to 1934 for being trained as Deck Officers was 33 per year and whether that number has been increased to 50 from the year 1935-25 to be trained as Deck Officers and the remaining 25 as Engineers ?

(b) If the answer to (a) be in the affirmative, will Government be pleased to state whether the number of cadets who sit for the qualifying examination has been declining recently ?

(c) If the answer to (b) be in the affirmative, will Government be pleased to state whether it is a fact that while 200 candidates sat for the qualifying examination in 1935, only 125 appeared for that examination in 1936 ?

(d) Is it a fact that the Governing Body had to select 50 candidates out of 57 only who appeared at the interview ?

(e) Will Government be pleased to state what steps they have taken or propose to take to see that shipping companies would employ the cadets when duly qualified as officers in "adequate numbers" ?

THE HONOURABLE MR. H. DOW : (a) Except during the years 1927 and 1929, when the number of cadets admitted on the results of the qualifying examinations was 30 and 35, respectively, the position is as stated by the Honourable Member.

(b) Yes.

(c) The number of candidates who sat for the qualifying examination in 1935 and 1936 was 180 and 124, respectively.

(d) The Honourable Member is apparently referring to the selection of candidates which took place in January this year, and, if so, the answer is in the affirmative. I should explain that only passed candidates appear at the interview.

(e) Government addressed the leading shipping companies last year on the general question of the employment of *ex*-"Dufferin" cadets and have also been in constant correspondence with them about individual cases.

AMENDMENTS TO THE PROSPECTUS OF THE TRAINING SHIP " DUFFERIN ".

39. THE HONOURABLE MR. GOVINDLAL SHIVLAL MOTILAL: (a) Will Government be pleased to state whether they asked the Governing Body of the Training Ship " Dufferin " to consider some amendments to the Prospectus of that ship either in 1935 or 1936 ?

(b) If the answer to (a) be in the affirmative, will Government be pleased to lay on the table the proposed amendments to the Prospectus in question and to state whether they have received any representation or representations from the Governing Body communicating their regret that they cannot agree to the proposed amendments to be made in the Prospectus? If so, will Government be pleased to lay on the table copies of the communications received from the Governing Body on that subject ?

(c) Have they decided to make amendments in the Prospectus? If so, will Government be pleased to state their reasons for doing so ?

THE HONOURABLE MR. H. DOW : (a) Yes ; in 1935.

(b) I lay on the table a statement showing the proposed amendments. With regard to the second portion, I would refer the Honourable Member to the reply given by the Honourable Commerce Member to part (c) of the starred question No. 742 asked by Pandit Govind Ballabh Pant in the Legislative Assembly on the 24th February 1936.

(c) Yes : because Government consider that the parents and guardians of cadets intending to apply for admission to " Dufferin " are entitled to the fullest possible information regarding the course of study and the prospects of employment.

Statement showing the Proposed Amendments to the Prospectus of the Indian Mercantile Marine Training Ship " Dufferin ".

Page 4, paragraph 1.—Aims and objects of the " Dufferin ", sub-para. (ii) :
Add " (See paragraph on General Education)."

Page 5.—Last paragraph entitled " Facilities for Apprenticeship " :—
Delete this paragraph.

Page 7, paragraph entitled " Employment as Marine Engineers on completion of workshop training " :—
Delete this paragraph.

Page 7.—After paragraph entitled " Pay and Prospects " add the following :—
Facilities for apprenticeship and employment at Sea.

Executive : The Government of India have arranged with the principal shipping companies operating on the coasts of India to grant facilities to " Dufferin " Cadets to proceed to sea as apprentices as vacancies occur. Many of these have also agreed to

accept as Officers in their Companies such apprentices who have passed through the "Dufferin", completed their apprenticeship at sea with satisfaction and obtained the necessary certificates of competency.

Engagement of apprentices and the employment of officers in after life is however dependent on many factors, such as conditions of trade, number of vacancies, and the rules and regulations of each individual company.

Engineering : The Government of India are also assured that facilities for training as apprentices are available at the major Marine Workshops in Bombay, Calcutta and Rangoon and further that the principal shipping companies operating on the coasts of India will accept ex-"Dufferin" Cadets who have proved themselves satisfactory, as Junior uncertified Engineers and later as certified Engineer Officers.

Facilities for placing apprentices in workshops and employment at sea as certified or uncertified Marine Engineers, as in the case of the Executive Branch, are dependent on the conditions of trade, number of vacancies and the rules and regulations of each individual company.

General Education : It is realized, however, that not all who join the "Dufferin" may be able to proceed to sea, and indeed may not desire to. For this reason, and to allow for an element of competition in the Training Ship, in addition to vocational training, the Curriculum has been so designed that it combines the requirements of the sea with those of the Universities in India up to Matriculation standard and so provides a good Public School education, a suitable preliminary to an University career or to employment in other walks of life, and arrangements have been made by which the "Dufferin" Passing Out Certificate has been recognised by the Government of India as equivalent to the Matriculation Examination for purposes of admission to the Public Services in India and by the Universities as equivalent to Matriculation.

Instruction on the Training Ship is given in English, Geography, History, Arithmetic, Algebra, Geometry, Trigonometry, Science and Mechanics. For vocational subjects, the Executive Cadets will take Navigation and Nautical Astronomy, Meteorology, Elementary Engineering, Seamanship and Magnetism. The Engineering Cadets will take Practical Mathematics, Engineering Knowledge, Mechanical Drawing, Manual (Workshop Practice) and Elementary Seamanship.

The above subjects will be included in the Final Passing Out Examination.

The Syndicates of the Universities of Bombay, Nagpur, Madras, Delhi and Benares have recognized the "Dufferin" Final Passing Out Examination as equivalent to the Matriculation and the High School Examination on obtaining the requisite quota of marks.

The University of Patna has granted permission to a Cadet of the "Dufferin" who passes the final examination of the ship to join the First Year Class of a College affiliated to that University provided that he satisfied the conditions of regulations 8 (4) of Chapter XXVIII of the Patna University Regulations. The Universities of Mysore and Rangoon too have granted equal recognition subject to certain conditions.

The Syndicate of the University of Calcutta has sanctioned the admission of a student who has passed the Final Examination on the "Dufferin" into the first year class of a College affiliated to that University provided the candidate passes in one of the vernaculars mentioned in Section 9 (4) of Chapter XXX of the Regulations before proceeding to the Intermediate Examination of that University.

*In respect of the Executive Cadets, the Board of High School and Intermediate Education, United Provinces, Allahabad, have recognised the "Dufferin" Final Passing Out Examination as equivalent to its High School Examination for the purpose of enabling candidates to enter upon the course of study prescribed for the Intermediate Examination.

The Universities of Osmania, Punjab, Andhra, Annamalai and Aligarh have granted equal recognition subject to certain conditions.

These five Universities as well as the Allahabad Board have now under consideration the grant of equal recognition to the Final Passing Out Examination in the case of Engineering Cadets.

Page 10.—Delete paragraph on General Education.

* This will require to be re-edited as by the time the fresh prospectus is ready for the press, it is anticipated that all the Universities will accede to the request for recognition of Cadets taking the Engineering Course.

PROCEDURE FOR THE ELECTION OF CHAIRMAN OF MEETINGS OF THE GOVERNING BODY OF THE TRAINING SHIP " DUFFERIN ".

40. THE HONOURABLE MR. GOVINDLAL SHIVLAL MOTILAL :
 (a) Will Government be pleased to state whether they have received any communication from the Governing Body of the Training Ship " Dufferin " requesting Government not to make any alteration in the procedure followed since the inception of the Training Ship in regard to the election of the Chairman of the meeting when the regular Chairman was absent at that meeting and to reinstate the old rule whereby the Governing Body will be able, as in the past, to elect a Chairman from amongst themselves at any meeting where the regular Chairman was absent ?

(b) If the answer to (a) be in the affirmative, will Government be pleased to state whether they have complied with or propose to comply with the request of the Governing Body in this matter ? If not, why ?

THE HONOURABLE MR. H. DOW : (a) Government are not prepared to disclose communications made to them by the Governing Body.

(b) Does not arise.

PUBLICATION OF THE REPORT OF THE CONTROLLER OF THE CURRENCY.

41. THE HONOURABLE MR. GOVINDLAL SHIVLAL MOTILAL :
 Will Government be pleased to state—

(a) whether the publication of the report, known as the report of the Controller of the Currency, will be continued by the Reserve Bank of India ;

(b) if so, when will the report be published ?

THE HONOURABLE MR. J. C. NIXON : (a) and (b). The publication of the report of the Controller of the Currency has been discontinued. The more important material previously included in that report now appears in the statistical summary of the Reserve Bank.

ABOLITION OF PREFERENTIAL TARIFFS ACCORDED TO IMPORTS FROM THE UNITED KINGDOM.

42. THE HONOURABLE MR. GOVINDLAL SHIVLAL MOTILAL :
 Will Government be pleased to state as to when do they propose to abolish preferential tariffs accorded to imports from the United Kingdom under the Ottawa Pact ?

THE HONOURABLE MR. H. DOW : The question of a new agreement to replace that concluded under the Ottawa Pact is now under discussion with His Majesty's Government in the United Kingdom, and Government are not yet in a position to anticipate the results of that agreement.

DETAILS OF THE RUPEE AND POUND SECURITIES HANDED OVER TO THE RESERVE BANK.

43. THE HONOURABLE MR. HOSSAIN IMAM : Will Government lay on the table a statement giving details of the Rs. and £ securities, handed over to the Reserve Bank on 1st April, 1935 (note : composition as published for G. S. R.).

THE HONOURABLE MR. J. C. NIXON : Government consider that it would not be in the public interest to give this information.

COMPOSITION OF RUPEE AND POUND SECURITIES HELD BY THE RESERVE BANK.

44. THE HONOURABLE MR. HOSSAIN IMAM: Will Government kindly state the composition of £ and Rs. securities held by the Reserve Bank on 31st December of 1935 and 1936 ?

THE HONOURABLE MR. J. C. NIXON: The Bank does not publish the details of its investments.

REPLACEMENT OF THE OTTAWA AGREEMENT.

45. THE HONOURABLE MR. HOSSAIN IMAM: Will Government state fully what steps they have taken, and what steps they propose to take to replace the Ottawa agreement, and do they propose to give the Legislature an opportunity to ratify or reject their interim arrangements? If not, why not ?

THE HONOURABLE MR. H. DOW: The matter is still under consideration in consultation with Government's non-official advisers and with His Majesty's Government in the United Kingdom. As regards the interim arrangements, the Honourable Member's attention is invited to the Press Communiqué issued by the Government of India on 19th October 1936, a copy of which is in the Library. Government do not propose to bring this before the Legislature in any other manner.

THE HONOURABLE MR. HOSSAIN IMAM: Does the sanction of the Assembly mean that the interim arrangement can be made for a prolonged period ?

THE HONOURABLE THE PRESIDENT: That is a matter of opinion. I disallow it.

AMOUNT IN THE DEPRECIATION FUND STANDING TO THE CREDIT OF THE EAST INDIA AND THE BURMA RAILWAYS, ETC.

46. THE HONOURABLE MR. HOSSAIN IMAM: Will Government kindly give the following information separately about the East India and the Burma Railways :—

(a) The amount standing to their credit in the Depreciation Fund on 31st March, 1929 and 1936 ;

(b) The total credits to and withdrawals from the above fund for the last seven years ;

(c) The amount taken as loan from the above fund and Railway Reserve Fund, in each of the last seven years ;

(d) The surplus or deficit, from 1924-25 to 1935-36, after deducting the contribution actually made to general revenues ?

THE HONOURABLE SIR GUTHRIE RUSSELL: (a) and (b). I would refer the Honourable Member to paragraph 25 of Vol. I of the Administration Report of Indian Railways for 1925-26.

(c) Neither the amount of loan taken from the Railway Depreciation Reserve Fund nor the balance at credit of the Railway Fund has been allocated to individual railways.

(d) For the same reason the surpluses and deficits cannot be allocated to individual railways.

INDIA'S LIABILITY FOR POUND WAR LOAN.

47. **THE HONOURABLE MR. HOSSAIN (MAM :** Will Government state what steps they have taken or propose to take to quash India's liability for £ War Loan ?

THE HONOURABLE MR. J. C. NIXON : The payment of capital and interest remains suspended according to arrangements following the Lausanne agreement of 1932.

NUMBER OF STUDENTS WHO PASS OUT ANNUALLY FROM THE INDIAN MILITARY ACADEMY, DEHRA DUN.

48. **THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS :** Will Government kindly state :

(a) What has been the number of students who pass out each year from the Indian Military Academy, Dehra Dun, during the years it has been in existence ?

(b) Whether its students after completion of their course at Dehra Dun go to Great Britain for further training ? If so, for what period ?

(c) What is the total amount of fees charged for training each student, and what proportion of such fees does Government bear ?

(d) How many of the Diploma Holders of the Indian Military Academy have so far obtained King's Commission in the Army in India ?

(e) Whether the places of Viceroy's (Indian) Commissioned officers are now filled by students from the Indian Military Academy, Dehra Dun ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : (a) 29 in 1934, 63 in 1935 and 53 in 1936, or 145 in all.

(b) No.

(c) The fees for the course of five terms amount to Rs. 3,850 for all cadets except Indian Army cadets who are charged no fees. It has been calculated that the cost to Government per cadet is Rs. 10,775.

(d) No Diplomas are given at the Indian Military Academy. 124 out of the 145 cadets who have passed out of the Academy have been given Commissions in the Indian Army.

(e) Yes, except in the case of those who are posted to the Indian Regiment of Artillery.

REPORT ON THE RURAL CREDIT BY THE RESERVE BANK OF INDIA.

49. **THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS :** Will Government kindly state whether the Reserve Bank of India has issued any report on rural credit ? If so, will they lay it on the table of this House ?

THE HONOURABLE MR. J. C. NIXON : The Reserve Bank of India have submitted a report under section 55 (1) (b) of the Reserve Bank Act which was published on the 30th December last. Copies will be found in the Library.

NUMBER OF CADETS RECEIVING KING'S COMMISSION IN THE ARMY IN INDIA.

50. **THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS :** Will Government kindly state the total number each year of cadets who have

during the last five years received the King's Commission in the Army in India, and how many of them have been posted in the places vacated by Viceroy's (Indian) Commissioned Officers ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : With your permission, Sir, I propose to answer questions Nos. 50 and 52 together. Practically all the information required by the Honourable Member will be found at pages 231 to 239, 278, 406, 407, 414, 428, 455, 463, 471, 477, 479, 489, 499, 505, 510, 517 and 544 of the Indian Army List, a copy of which is in the library of the Indian Legislature. Except for those posted to the Indian Regiment of Artillery, all officers commissioned from the Indian Military Academy, that is to say since 1934, have taken the place of Viceroy's commissioned officers. It is, however, impossible to give the names of all the Viceroy's commissioned officers who have been displaced.

THE HONOURABLE MR. P. N. SAPRU : Is the Indian Army List supplied free to Members of the Legislature ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : I would like to have notice of that question, Sir.

SALARIES AND ALLOWANCES TO ARMY OFFICERS HOLDING KING'S COMMISSIONS AND OFFICERS PASSING OUT OF THE INDIAN MILITARY ACADEMY, RESPECTIVELY.

51. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Will Government kindly lay on the table of this House the scales of salaries and allowances (including Lee concessions) to the Army officers holding King's Commission, and to the officers who are the product of the Indian Military Academy ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : The rates of pay and allowances of the King's commissioned officers of the Indian Army are laid down in the Pay and Allowance Regulations, Parts I and II and Part I—Special. The Lee concessions will be found in Passage Regulations (India). The rates of pay of Indian Commissioned Officers recruited through the Indian Military Academy were published in Army Instruction (India) No. 32 of 1935, as amended by corrigendum No. 1, dated the 26th November 1935. Copies of all these publications are in the library of the Indian Legislature. The rates of allowances for Indian commissioned officers are at present under consideration.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Will His Excellency be pleased to kindly place the relevant extracts from those seven books on the table of this House as these books are not generally supplied to the Members of the Legislature ?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : I will consider that suggestion, Sir.

OFFICERS HOLDING KING'S COMMISSIONS WHO PASSED OUT OF THE INDIAN MILITARY ACADEMY, WITH THEIR RANKS, ETC.

***52. THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS :** Will Government kindly lay on the table of this House the names of the officers holding King's Commission who passed out of the Indian Military Academy, since its inception, and the names of the Regiments to which they have been posted and ranks of the officers ; giving names of the officers whom they have replaced ?

*For answer to this question—see answer to question No. 50.

PURCHASE OF STORES FOR THE DEFENCE DEPARTMENT BY THE INDIAN STORES DEPARTMENT.

53. **THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS :** Will Government kindly state whether or not they are considering the question of entrusting the purchase of stores needed for the Defence Department to the Chief Controller, Indian Stores Department? If not, why not?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF : As has been explained on previous occasions, the Defence Department do already entrust the purchase of certain stores, including textiles and certain machinery, to the Indian Stores Department. Government are not considering any extension of this practice, as the present system has, so far, worked satisfactorily.

COUNTERFEIT COINS IN CIRCULATION IN INDIA.

54. **THE HONOURABLE HAJI SYED MUHAMMAD HUSAIN :** Will Government be pleased to state :

(a) If a large number of counterfeit coins have been in circulation in India since 1930 and their number is increasing?

(b) If so, what steps are Government taking to stop this?

(c) What was the percentage of counterfeit coins detected in the mints in 1930, 1931, 1932, 1933, 1934, 1935 and 1936?

THE HONOURABLE MR. J. C. NIXON : (a) Government are aware of some increase in the circulation of counterfeit coins but the increase has not been as marked as is suggested by the Honourable Member.

(b) Special steps are being taken by the Mints to render counterfeiting more difficult in future and by the police to check the circulation of counterfeit coins.

(c) The question is not clear. The Honourable Member presumably refers to the percentage of detected counterfeit coins to total coins in circulation. If this is so, the information cannot be supplied as the number of coins in circulation is unknown. The percentage, however, would be negligible.

INDIAN RESEARCH FUND ASSOCIATION.

THE HONOURABLE THE PRESIDENT : With reference to the announcement made by me on the 20th February, 1937, regarding nominations to various Committees, I have to inform the House that the Honourable Diwan Bahadur Sir K. Ramunni Menon and the Honourable Mr. Hossain Imam have withdrawn their candidature for election to the Governing Body of the Indian Research Fund Association. As there now remains only the candidature of the Honourable Sir Phiroze Sethna, I declare him to be duly elected.

LIBRARY COMMITTEE OF THE INDIAN LEGISLATURE.

THE HONOURABLE THE PRESIDENT : I have to announce to the Council that I have appointed the Honourable Diwan Bahadur Sir K. Ramunni Menon and the Honourable Mr. B. K. Basu to be members of the Library Committee of the Indian Legislature.

GENERAL DISCUSSION OF THE GENERAL BUDGET FOR
1937-38.

THE HONOURABLE THE PRESIDENT : Discussion will now proceed on the General Budget (Part II). I do not propose to fix any time-limit for speeches, but as there are many Members who would be anxious to address this House, those who rise will kindly bear some consideration for Honourable Members who will follow them.

THE HONOURABLE MR. BIJAY KUMAR BASU (Bengal : Nominated Non-Official) : Sir, the speech of the Honourable the Finance Member in the Assembly in introducing the Budget estimates of this year was, if I may be excused for saying so, characteristic of the man. It was blunt, plain spoken, straightforward and devoid of platitudes. He has grappled the financial situation with courage, boldness and imagination.

**THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa : Muham-
madan) :** He denies it.

THE HONOURABLE MR. BIJAY KUMAR BASU : I think he will answer for himself.

Many of us, Sir, were afraid that this year the present Budget would have disclosed much heavier taxation and would have covered a larger field than what has been disclosed. The threatening war atmosphere in Europe where the horizon is overcast which may at any moment have an outbreak led many of us to think that the Army Budget would have been of much bigger proportion than what has been provided. Only this morning in a local newspaper I saw a telegram which supports me in that view. It was a telegram which announced that the Lloyd Underwriters have increased their war risk insurance premium from 2 shillings to 10 shillings per cargo to and from or calling at French Mediterranean Ports, and they have increased the rate of assurance of cargoes to and from or calling at the other Mediterranean ports from 2 shillings to 5 shillings. India may not escape from the effects of repercussions of an outbreak in any part of the world. I think that was one of the reasons which led His Excellency the Commander-in-Chief to express his "concern" about these low estimates. I only hope there should be no occasion in the near future for the disturbance of the peace of the world and that the comparatively low estimates provided for Defence will not seriously affect the well-being of India. But at the same time we must not forget that very old saying that "War demands three things,—gold, gold and gold." In any case it would not be idle for us to think that in case of any political turmoil in the world it would not be possible for us to keep our expenditure on Defence within the narrow limits provided in the Budget or anywhere near it. But I believe I am speculating. I shall be content to leave the matter at that.

The next point, Sir, I would like to make is to express due praise to the far-sightedness of Sir James Grigg in having a Revenue Reserve Fund last year which has provided to a certain extent for the inauguration of Provincial Autonomy. Otherwise we would have been in a much worse position today, had he not with his usual perception of realities timely provided a little nest-egg for the purpose.

I believe, Sir, I should fail in my duty if I did not express my congratulations on the administration of the Posts and Telegraphs Department of the Government. It is one of the most efficiently managed Departments which has always been amenable to public opinion and which has served the demands of the public always with a smiling face. My friend Mr. Bewoor's personality and his public spirit has been well reflected in his administration. I take this opportunity, Sir, of publicly giving vent to my appreciation of his devotion, zeal and efficiency.

The unexpected fall in the customs revenue this year is an alarming situation in the budgetary position of the Government and I hope that during the next 12 months the position will improve with the improvement of trade and commerce generally so that the Finance Member may not have to go "to-morrow to fresh woods and pastures new".

The proposal for the increase of sugar excise and the duty on silver have my whole-hearted support and, if I may be allowed to say so, I entirely agree with the arguments that have been advanced by the Finance Member in his speech to the Legislative Assembly. The additional excise duty of 11 annas per cwt. will have a very salutary effect on the sugar trade by eliminating rate-cutting and leaving the field to stronger producers who would naturally augment their profits and pay the agriculturists more reasonably; over-production will stop, and finally the profits will contribute a handsome amount to the income-tax.

At the same time, Sir, I do not expect the yield from the increase in the silver duty to be anywhere near the estimates of the Honourable the Finance Member. But I feel that by this increase the speculators, at any rate, will be liable to contribute some money to the exchequer from their easy gains. The two new proposals for additional taxation have this merit that they will not fall, as has been pointed out by the Finance Member, on the shoulders of the poorer classes.

If Sir James Grigg will pardon me the impertinence, I may tell him that although I do not believe that he knows everything, in my opinion he has got the right end of the stick in his hand right enough. As was said by an eminent American President, the way to stop financial joy-riding is to arrest the chauffeur and not the automobile, and Sir James Grigg has effectively done so. He has not thrown cats and dogs together and called them elephants.

THE HONOURABLE SIR PHIROZE SETHNA (Bombay: Non-Muhammadan): Mr. President, every 12 months at this time of the year the people in India are on the tiptoe of expectation for some relief in taxation if the budget figures reveal a surplus. If otherwise, they stand in dread of taxation being increased. The present Finance Member has by now presented three budget statements. Two years ago when he presented the figures for 1935-36 he was exceptionally fortunate. A year later—that is 12 months from now—when he gave us the figures for 1936-37 he counted upon a surplus of 6 lakhs, which unfortunately has been converted into a loss of 197 lakhs. In presenting the figures for 1937-38 he has shown that he expects a deficit of 342 lakhs but fortunately as he was able to set aside the large sum of 184 lakhs and created a Revenue Reserve Fund he proposes to utilise that sum partly towards this deficit and he is now to make arrangements for making up the further balance of 158 lakhs. Sir James Grigg therefore is justified in characterising his statement for 1937-38 as a "story of disappointment". But at the same time he is not one of those who loses heart easily and he hopes that before long things will adjust themselves. Let us hope that this will be so.

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When presenting his first Budget Sir James had informed us that he found the manner in which our budget statements were prepared were peculiar to India inasmuch as three sets of accounts were necessary. We had hoped therefrom that he would introduce a change but so far that change has not been effected. May I also remind him that no effect has been given to the suggestion that was made, namely, that in addition to the mass of figures we are supplied with we might be given figures in a manner which will be readily understood by the man in the street. In addition to the figures of exports and imports, in addition to the figures of revenue and expenditure, it would be ever so much better if, as is the case in other countries, we were also told whether the country is progressing materially or retrograding and if we were given an indication of the income of the people of India and other details. We trust he will yet do so in subsequent years.

The Honourable the Finance Member has told us that there is to be a change in the form and scope of the statements for 1937-38. He has explained that the existing system has prevailed from 1921 when the transformation took place because it was necessitated by the separation of the revenue and expenditure of the Central Government from those of the Provincial Governments. This change, as we see, has been introduced by him.

The trade and industry of this country has waited too long for the restoration of the remainder, namely, 2/3rds of the 25 per cent. surcharge on income-tax and super-tax. We were told that this would be restored at the earliest opportunity. That opportunity has not yet arrived, and it looks as if that date is yet very distant. If I make this observation, it is because I feel that perhaps we made a mistake in restoring the second cut of 5 per cent. in the salaries a little before it should have been done. The result has been that while Government servants have benefited, the general public has been hit hard by the continuation of the 16 2/3 per cent. surcharge, both on income-tax and super-tax. India is certainly a poor country, as we know, and it is generally recognised that the burden of taxation is heavy. But the bulk of the burden is borne by the well-to-do through payment of income-tax and customs tax, and it is therefore that we desire that this should be removed as early as possible. If only our Military expenditure were reduced, the same would help not only to give some relief in the matter of taxation but also in diverting the surplus towards nation building purposes which would very greatly advance the country.

Let us proceed to examine the recommendations made by the Honourable the Finance Member in regard to meeting the deficit of 158 lakhs. He has made two recommendations. The first is an increase in the duty on silver and the second—an increase in the excise on sugar. I do not regard these recommendations as drastic. But at the same time I cannot help commenting on them adversely. Let us first take the case of the duty on silver. It is increased from 2 annas to 3 annas an ounce, which means an increase of as much as 50 per cent. The main objections to this recommendation are two. In the first place, it is a tax on capital investment. In the second place, while time after time representations have been made to Government to levy a duty on the export of gold, Government has not thought fit to pay heed to that suggestion, but at one jump they have now increased the duty on silver by 50 per cent., which will mean that the imports of silver are bound to be discouraged. In regard to the duty on gold, as recently as two or three days ago, the "Statesman" made a comment which is worth quoting—

THE HONOURABLE THE PRESIDENT : Will you please not quote any newspaper? You cannot quote from a newspaper in the House.

THE HONOURABLE SIR PHIROZE SETHNA : I accept your ruling, Sir.

THE HONOURABLE THE PRESIDENT : That has been the practice for many years. My predecessors also used not to allow it.

THE HONOURABLE SIR PHIROZE SETHNA : I will give it in my own words.

THE HONOURABLE THE PRESIDENT : You can do that.

THE HONOURABLE SIR PHIROZE SETHNA : It is the best policy for India to check the overflow and seek to use India's hoards as the basis of internal credit. It seems that this paper has also changed its opinion by now.

Now let us come to the second recommendation, namely, the increase of 11 annas in the excise duty on sugar raising it to Rs. 2 per cwt. This, Sir, is bound to create great alarm in the industry, and perhaps this increase is not justified for the reasons which I will endeavour to explain. It is true that Government came to the relief of the sugar industry in India in a very tangible form in 1932 when it levied a protective duty of Rs. 7-4-0 per cwt. That duty was further increased by the imposition of the 25 per cent. super-charge, which raised it to Rs. 9-1-0. I say, Government came to the relief of the sugar industry, because by this levy of Rs. 9-1-0, it became very difficult for imported sugar to compete with Indian-made sugar. But the position today is very considerably altered. Indian sugar, which sold at one time at Rs. 14-0-0 came down in price to Rs. 13-8-0 last year and today it is sold in the ports of Bombay and Calcutta at Rs. 10-8-0. This excise duty has to be paid to Government in cash, which is to be deducted from this price of Rs. 10-8-0, which will leave to the manufacturer Rs. 8-8-0. We must therefore consider what will be the gain to the manufacturer. The cost of production varies in different factories, based on efficiency as well as location and other reasons, and the cost is expected to be anything between Rs. 7-8-0 and Rs. 8-0-0 per cwt. Therefore, the profit left to the manufacturer is about annas 8 to Re. 1-0-0, and this profit is without taking into account depreciation and interest. If you take depreciation and interest into account, it leaves still less, which means that in the majority of cases these sugar factories will not make any money. As a result, many of these factories will have to go to the wall. Nobody realises that better than the Honourable the Finance Member himself. He has said so openly, perhaps in a "light-hearted" manner. I trust he will pardon my using that expression. He knows I mean no offence. According to a recent ruling, this word is considered un-Parliamentary only when it refers to a vote of the House. He disposes of this matter very light-heartedly because this nascent industry will suffer very considerably. Protection was given to the industry only 5 or 6 years ago. As a result of this protection, the sugar industry developed in this country in a phenomenal manner—far better than and at a quicker pace than any other industry has developed in India. It is therefore too early to impose upon it the burden which Sir James Grigg has imposed by his recommendation. He might ask, "What is your constructive programme? What else would you suggest?" I would say that if Sir James Grigg thinks that because of this protection there has been over-production—and I will admit that the number of mills has increased five times in number, and I will also admit that the production has increased from 400,000 tons to nearly 10 lakhs of tons—the

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remedy would have been not to crush the industry in the manner it is proposed to do but to give a twelve months' time to the industry to put their house in order so that they may by means of rationalisation and other processes stop over-production and bring back the state of the industry to a healthy condition.

THE HONOURABLE THE PRESIDENT: What about the Government revenue during those months?

THE HONOURABLE SIR PHIROZE SETHNA: But Government revenue is not the only thing to be considered. Government has at the same time to consider what is going to be the effect of this excise, because, while it will harm the manufacturer, it will also harm the cane grower, and Government must recognize that it will be faced once again with agrarian troubles in the United Provinces and in Bihar. This they ought to avoid at all costs, and it will not be avoided by the recommendation which my Honourable friend has made. That is my humble opinion. It is true that the protective duty has stopped the import of Java sugar. Java sugar cost Rs. 5 C. I. F. and with the protective duty and 25 per cent. surcharge the cost came to Rs. 14 per cwt. It could not compete with Indian sugar and the imports of Java sugar dwindled down almost to vanishing point. I do not know if with the change now proposed there will be further inroads of Javanese sugar imports into this country.

I should like to quote just one opinion, again in my own words, if I may. It is the opinion of one who was at one time the head of the Imperial Council of Agricultural Research—I mean Sir T. V. Raghavachariar. I see from this morning's papers that the Honourable the Finance Member has criticised his opinion as being biased because he is in some way connected with the sugar industry at the present moment. But at the same time I hope he will give him credit for being a man who would give his unbiased opinion based upon his experience and first-hand knowledge of the subject. May I be allowed, Sir, to read out what he has said in the Press?

THE HONOURABLE THE PRESIDENT: No.

THE HONOURABLE SIR PHIROZE SETHNA: Then I need not, but the opinion has been quoted in another place with the reply made by the Honourable Finance Member to which I referred.

THE HONOURABLE SIR JAMES GRIGG (Finance Member): May I just explain to the Honourable Member that he has not quite accurately represented my point in this matter.

THE HONOURABLE THE PRESIDENT: The Honourable Member will have a proper opportunity later on.

THE HONOURABLE SIR JAMES GRIGG: I am very anxious that this misapprehension should not get any currency at all. What I said was that the late Chairman or Vice-Chairman of the Imperial Council of Agricultural Research was not necessarily an unbiased representative of the agricultural interests, that as he was being employed by the manufacturers' interest his opinion in relation to matters affecting the agriculturist were not necessarily unbiased.

THE HONOURABLE SIR PHIROZE SETHNA: He might not have been directly concerned with the agriculturist at the present moment, but he certainly

looked after the interests of the agriculturist in his position as the head of that Department when he filled that position for years together.

THE HONOURABLE SIR JAMES GRIGG : He got a brief from the other side.

THE HONOURABLE SIR PHIROZE SETHNA : At any rate I for one and I am sure the House will think that the opinion of Sir T. V. Raghavachariar must be regarded as unprejudiced and unbiased.

Now, Sir, having said so much, I would like to repeat that the Indian silver duty might bring in Rs. 50 lakhs and the Honourable the Finance Member had to provide for Rs. 115 lakhs more, which he has done in the manner he has proposed. I for one certainly think that it is wrong to impose a handicap on an industry which is only a few years old, and he should have left sugar alone and tapped some other sources of revenue to make up this Rs. 115 lakhs.

In the budget the only relief we find is in regard to some postage details, but they are comparatively speaking very small indeed. They have been introduced for the sake of removing anomalies. One anomaly was that by book post you could send a packet all the way from London to Delhi at a lower rate than from Bombay to Delhi, and a similar anomaly existed in the matter of parcel rates. Those have been removed, but that does not mean very much. I agree with the previous speaker Mr. Basu that the Posts and Telegraphs Department is worked most efficiently. It is the one public service of Government which comes constantly and intimately into relations with the public at large, and it is the duty of that department therefore to study the requirements of the public, and the one great requirement of the public is a return to the half-anna rate for the postcard. I know it is not possible under existing conditions, but I do hope that as soon as funds permit that will be taken in hand for certain.

I will now with your permission refer to the high military expenditure which this country has to suffer from. I offer no apology for referring once again to this subject. There are some of us who year in and year out refer to this matter and it should not be considered as a case of flogging a dead horse. On the contrary we feel that we should persistently din into the ears of Government the views which we hold on this subject. It is only by such insistence on our part that we hope we may be able to get them to alter their present attitude. We certainly think that we could with safety reduce our military expenditure. We have said so times out of number. We believe that the strength of the Indian Army ought to be reduced from 180,000 to something less. We also believe that a number of British troops might be substituted by Indian troops, so that, while the numbers may remain the same, the cost may be diminished. If these two proposals are carried out I am sure they will be much to the benefit of the country. If 15,000 British troops in India sufficed during the great war, would not 30,000 do today? Is there any necessity for having 60,000 British troops in the line? Again, the Indian army or at any rate the British element in it is used for imperial purposes. We would be perfectly justified in asking for a share of our military expenditure from the British exchequer. Even Field-Marshal Sir Philip Chetwode two years ago at Simla agreed with the suggestion, and I doubt not that our present Commander-in-Chief His-Excellency Sir Robert Cassels will also hold the same view. I will quote two other authorities. Take first the Simon Commission Report. It says very clearly that India can equitably demand a fair share of its military expenditure from the imperial revenues. Take again Mr. Ramsay Macdonald,

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the former Prime Minister. He said that half the cost should be borne by the imperial exchequer, and in support of his contention he pointed out that whilst British troops are sent to the Colonies and to the Dominions not a penny piece is charged to those Colonies and Dominions.

Having said so much, I would like to repeat, as we all know, that we are a poor country. But we are told that we should in the first place see that our defence is not impaired and that its efficiency is maintained at a very high standard and that we should regard our military expenditure as premium for insurance against invasion. All that is true to some extent, but it is sheer folly and a suicidal policy to pay a premium which is greater than we can afford. If as an individual I want to benefit my family by taking out a life policy, I certainly will not pay a larger premium than I can afford. That is what the British Government are getting us to do and that is our complaint. We must be prepared to cut our coat according to our cloth. India is poor. There are many Indian authorities who could be quoted. But I will not quote any Indian authorities. I will quote an authority whom no one in this House will dispute. I quote Sir Walter Layton, the financial expert, who was brought out by the Simon Commission. Sir Walter Layton stated that the average income of the Britisher was £100 and that the average income in India was Rs. 107, which he after further calculations brought down to Rs. 80 and that Rs. 80 in English money is only £6. I would ask the House to compare the figure of £6 of Indian income with £100 of British income.

Sir Walter Layton pointed out that the British tax-payer pays 2½ per cent. of his total income of £100 for the purpose of defence and we pay here against that £2-10-0 only 3s. 4d. taking into account just the British Indian population. But the House will know that our 3s. 4d. is equal to 2 per cent. of our annual income as compared with 2½ per cent. of their annual income. But that is not the only criterion. We must also bear in mind that the foreign trade of Great Britain runs into 1500 to 2000 millions sterling, while our foreign trade is only about 300 crores or £200 millions in English money, which means that our foreign trade is 1/10th or at the best only 1/7th of the English foreign trade.

Sir Walter Layton also said that in Great Britain they spent £112 million for defence purposes, but what we have got to consider is this, that whilst they spend so much on defence they also spend as much as £200 millions for education, for social benefits, for public health, for industrial and agricultural developments in the shape of bounties, etc. Again while England spends as much as £2-15-0 for education, we in India spend—leave alone pounds and shillings—less than 9d. per head of the population. These are the differences, and is it justifiable therefore to expect us to pay the large amount that we are doing in the matter of military expenditure? The threat is held out—I think the Honourable the Finance Member or His Excellency the Commander-in-Chief told us so last year—that we may have to spend more. In that connection I may remind the House of the speech made on the 30th of March last by Field-Marshal Sir Philip Chetwode when he addressed a meeting of the Conservative Private Members of the House of Commons where he said that mechanisation of the army might be advisable in England, but we should go on a very slow pace in India. In conclusion, Mr. President, I would like to repeat that unless the military expenditure of this country is reduced, and reduced substantially, our finances will continue in the present parlous condition for years to come.

THE HONOURABLE MR. V. RAMADAS PANTULU (Madras : Non-Muhammadan) : Sir, the Budget is a very skilfully drawn up document. For reasons which are best known to the Honourable the Finance Member and perhaps which can be easily imagined by us, he has not gone into any questions of large policy. He has tried to square his figures as best as he can and show a small surplus for next year. But it is the policy that really matters in criticising a Budget presented by the Indian Finance Member. After all, there is not very much, and there cannot be very much, in the budget itself which provides for a gross tax revenue of 83 crores, out of which about 45 crores are consumed by the defence, another 20 crores by the civil administration and other services ; we have a paltry 15 or 20 crores to comment upon and comment upon is the only thing we can do. But what interests India, as a nation, is the policy that lies behind these budgets. The Honourable the Finance Member can be easily discovered to be the agent of British trade interests and commerce in all that he has said in a subdued tone in his Budget speech. He regrets that notwithstanding the reduction of import duties on British goods, British import trade with India has not considerably increased. The portions of his speech which deal with this matter look almost like a paraphrase of what Mr. Runciman said and what Lord Derby said at the recent luncheon party of the Lancashire Spinners and Manufacturers at the British Industries Fair. They have insisted that a continued trade in cotton goods with India should be the indispensable factor in the future trade agreement between England and India and said that the Government in Britain will do all it can to press on the Government of India the interests of the Lancashire industry, and that both the Governments would see the interests of the British importers into India safeguarded in all future trade agreements. It is exactly what we read between the lines in the Finance Member's speech. The same old anxiety to find methods of importing raw materials cheaply from India and importing British manufactured goods into India are to be found in every line of the Finance Member's Budget speech.

A novel feature of the Budget speech is that this year he is called upon to play the role of the statesman and the politician, for he is anxious to show that the programme for the introduction of the new constitutional reforms in all their stages into India can be gone through and that the Niemeyer's Report prognostications are fairly realisable and that there is no reason to think that there will be any disappointment in that matter. Notwithstanding the fact that he has to find between 4 and 5 crores to meet the additional burden thrown upon the budget in consequence of the constitutional changes, he says he is able to show a surplus no doubt with the help of a portion of the revenue reserve fund which he has built up. He is anxious to co-operate with British Parliament and the Indian Government in inaugurating the Reforms both in the provinces and the centre very soon, but in doing so I think he has not convinced the Indian Legislature, and through it the people of India, that he has given due attention to all the financial implications of implementing those reforms and whether financially the Central Government could sustain and bear the burden which those reforms impose upon this country without additional taxation.

With regard to the usual complaint that India's revenues cannot bear the very heavy military expenditure and the cost of top-heavy administration, that is a very old complaint. The Finance Member on his part thinks that we are foolishly persisting in repeating the same thing year after year without any ground of complaint ; on the other hand, we feel that the Government have been persisting in running the administration at their pleasure

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notwithstanding the legitimate grievances of the people. The unreality of the annual debates on the budget can be seen from one fact. Supposing today an Honourable Member reads a speech made by the late Mr. Gokhale in the days of the Viceroyalty of Lord Curzon in the old Imperial Council, that speech will be quite apt and fitting to the present conditions without the change of a word or a comma with regard to the cost of administration, both on the military and the civil side. It only shows that there has been no change either in the outlook or the methods of the Government of this country in the last three decades. Whether it is due to the cursedness of the people of the country in repeating the same thing year after year or to the attitude of the Government is to be judged by the people of this country. It is no use the Finance Member saying that they are old stories and complaints about exploitation and top-heavy administration and do not require serious consideration. That is in substance what the Finance Member said when he replied to the General Debate on the Budget in the other House.

Sir, with these observations on the general policy of the Budget I propose to deal with one or two matters referred to by him in his speech. He said that the fall in the income-tax was due to two or three reasons, one of which was the curtailment of the money-lenders' profits by the measures adopted by the provincial Governments for the relief of agriculturists in regard to indebtedness. I seriously dispute this proposition. That there has been a fall in the income of money-lenders I do not deny. That they have paid less income-tax I do not deny. But the cause is not attributable to any measures of relief which any British province has undertaken to give relief to indebtedness among agriculturists. Speaking of my own province, in the year 1931 the Provincial and Central Banking Inquiry Committees estimated the indebtedness of the province at 150 crores. In the year 1936 the Government of Madras entrusted a Secretary of the Board of Revenue, a member of the Indian Civil Service, with the task of making further investigation into the problem and he reported last year that indebtedness had increased from 150 crores in 1931 to 210 crores in 1936. The Government in Madras have amended certain Acts and have given 20 lakhs of rupees for the relief of agriculturists. 20 lakhs in the budgets of 1935-36 and 1936-37—two years—does not touch the fringe of the problem. It is ridiculous to argue that a provision of this nature or the amendment of the Agricultural Loans Act has anything to do with the relief of the agricultural indebtedness. I believe our own co-operative land mortgage organisations have not doled out more than 80 lakhs of rupees to the agriculturists in the last 10 years. Therefore, nothing has been done to relieve indebtedness and the fall in the credit of the agriculturist is not due to any such measures of relief. The fact of the matter is that continued depression and the adverse exchange ratio and various other causes have gradually deteriorated the economic condition of the ryot and his credit has suffered. Not only the money-lenders but also the indigenous bankers, the joint stock companies, the co-operative organisations, have all curtailed their credit because the man's income has gone down and with it his repaying capacity has also gone down. Where in the pre-depression days we were lending anything between 100 and 130 lakhs through my own Provincial co-operative bank (of which I have been Chairman for the last ten years) our total loans have gone down to 7 lakhs this year. It only shows that agriculturist's credit has disappeared owing to continued economic depression and not to any measures of agricultural relief.

I may also point out, Sir, that most of these recent Acts are paper achievements of expiring Ministries in their anxiety to face the new electorates in the elections.

Sir, in another part of his speech the Honourable the Finance Member says that there is no cause for anxiety, for he expects money-lenders to prosper once again and contribute more to the central exchequer. If the money-lenders prosper once more it means that the agriculturists suffer economically once again. How is he going to reconcile these statements? If again the agriculturist gets into the clutches of the money-lenders and pays ruinous rates of interest, the whole rural economic problem receives a set-back. Therefore, I really cannot understand how the money-lender is going to be once again made to pay more income-tax and enter on prosperous days, and the problem of rural indebtedness solved by restricting credit to the cultivator.

Sir, in regard to this indebtedness, before I leave this subject I think I must pay my whole-hearted compliment to some of the Indian States and not to any British Indian provinces. One of them is the State of Bhavnagar, which is administered by my Honourable friend to the right, Sir Prabhankar Pattani, with great distinction. It is he that has effectively dealt with the question of indebtedness in that State. And another State is the State of Travancore, and the steps taken there once again redound to the credit of an old Member of this House, a very eminent ex-Member of the Government, my esteemed friend, Nawab Sir Muhammad Habibullah. Under his careful and efficient administration measures for the relief of indebtedness have been taken in Travancore and I know personally have been appreciated by the agriculturists of Travancore. Not a single British Indian province received any initiative from the Centre nor did they take any effective action themselves. Therefore, the reason for the fall of income-tax must be found in the going down of the purchasing power and income of the people as a result of the economic depression and as a result of the bad financial policy of the provincial and Central Governments.

The Honourable the Finance Member dealt with the question of the decline in the revenue from protected articles. He himself admits that it is bound to decline year after year as India becomes more and more self-sufficient in the matter of manufacturing her own goods, however little the Government may help India to do so. But at the same time, as he is anxious to show that the Niemeyer prognostications are not falsified, he says that this fall is a temporary and not a permanent embarrassment. I do not know why he says so. If India is industrialised more and more and if she manufactures her own goods more and more, I do not see how we can expect any increased return from customs revenue on protected articles. I think it is all a propagandist speech to show that he can produce a balanced budget and satisfy the conditions for setting up the Indian Federation.

Incidentally, while trying to show that there has been some improvement in the balance of trade on the merchandise side he has taken the opportunity of once more propagating his pet theory about the ratio. He says that the rupee is not only not over-valued, but that there is a great deal to be said for the contrary view. If he had his own way we can easily see that he would put up the ratio to 1s. 8d. or perhaps two shillings. He can easily do it. But what consequences a over-valued rupee has on the poor people of this country, on the agriculturist whose export trade it has ruined, and whose incidence of debt it has increased a great deal, he does not examine. The slight exchange advantages to the Government in regard to outside remittances of 45 or 50 crores will be more than counterbalanced by the

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disadvantages to the masses by the high ratio. This is a matter that has been argued so fully that it is not possible to add anything. In this matter, just as in the matter of the incidence of taxation and expenditure on the military and civil side, the Finance Member and we on this side of the House must agree to differ. He maintains that 1s. 6d. is for the good of India—we say that it works for the ruin of India. There is one significant omission in this Budget to which I cannot but draw attention, and that is, the absence of a provision for rural development grant for which he provided a crore in each of the two previous years. I am rather tempted to say, though it might be uncharitable to say so, that the provision of one crore in the two previous Budgets was nothing more than a political stunt. It was a counter move to the Congress programme of mass contact. The Government of India apparently thought—the Finance Member apparently thought—that this crore will help the Ministries that were set up under the Montford Scheme to do something to capture the imagination of the rural population and to put themselves right at least at the end of their term of 16 years of office and come out, with what success they may, at the hands of the new rural electorates. But even though Government have tried to help the Ministries in the provinces, they failed to take advantage of it. In fact, in my own province of Madras, the Ministry in power wanted to use that money for the strengthening of their own party organisation for election purposes and it was not till that leading Anglo-Indian Daily, "The Madras Mail", exposed the whole plot that the scheme was abandoned. I do think now, reading the revised estimate for 1936-37 and the figures for the previous year, that the Finance Member purposely created a surplus then to find this crore for the rural development grants in order to serve political purposes. That political purpose has ceased to have any purpose now and therefore he has stopped the grant now.

Coming to the two definite taxation proposals to turn a deficit into a surplus of Rs. 7 lakhs, I do not think that any Indian who is really interested in the development of Indian trade, commerce and industry can subscribe to the views adumbrated by the Finance Member. With regard to silver, I am disposed to dispute his statement that the increase in imports of silver marked the reappearance of the old hoarding habit. This theory badly fits in with the greatly diminished purchasing power of the Indian masses. They have really not enough to purchase even their necessaries with. It does not also fit in with the export of distress gold week after week from India, which means that the Indian agriculturist is driven to the necessity of disgorging even the gold hoard which he has built up laboriously in times of prosperity and which hoard he valued very greatly. He would not sell gold if he could buy silver. Therefore, I do not think the facts fit in with the Finance Member's theory. On the other hand, I am inclined to think that the increase in imports of silver indicates speculative trade activity. If that is so, it is doubtful whether the imposition of a 50 per cent. additional tax on silver will bring him the 50 lakhs of additional revenue which he expects and whether the speculative traders will really import so much silver when it is made dear to them. One cannot be sure of the data on which the Finance Member has proceeded.

With regard to the other proposal to increase the excise duty on sugar from Rs. 1.5 to Rs. 2 per cwt., I must say it is a most unfortunate decision, taken at a most inopportune time. Since 1932 when a protection policy has been launched, India has shown remarkable progress with regard to sugar manufacture. We were importing sugar and sending out to foreign countries

Rs. 16 crores to get the sugar we needed for consumption in India, and in these 4 or 5 years we have practically become self-contained. In the current year, the import of sugar is expected to be somewhere in the neighbourhood of 30,000 tons and no more. We will produce about 10½ lakhs of tons which is for the present sufficient for internal consumption. Comparing the figures of our consumption of sugar with other countries, India consumes the least per head. There is very little sugar eaten in India—not because we cannot eat more if we can get it, but because we cannot afford to buy more. I ask, Sir, in all humility, why India should be restricted to manufacturing just that quantity of sugar which is enough for internal consumption? The proposal to raise excise duty will hit the manufacturer and grower of cane alike very badly as shown by the Honourable Sir Pheroze Sethna. I need not repeat what he said. Countries like Java when they have facilities, when they have a hospitable soil for producing good cane and when they have got the necessary capital and State aid, manufacture sugar for export. Why should not India also be helped to manufacture sugar not only for internal consumption but also to export to foreign countries?

THE HONOURABLE MR. HOSSAIN IMAM: Merely because our cost prices are too high.

THE HONOURABLE MR. V. RAMADAS PANTULU: What I am saying is that the Government of India should not do anything to raise the price of sugar still higher but must help her to bring it down. On the one hand, they want India to enter into a trade agreement with England to buy costly cotton British goods, by giving preference, when Britain is unable to compete with Japan. Similarly, the Finance Member ought to get concession for Indian sugar in British markets by large preferences and induce British people to consume more of Indian sugar and thus enable Indians to manufacture more sugar to send out to Britain. I think that his two proposals for taxation will not be welcome to this country.

It may be asked, "Have you any alternative proposals to make?" I confess it is very difficult for a Member on this side of the House to suggest alternatives because the time has not yet come when we are to embark upon constructive proposals for budget-making. The expenditure is not in our hands. If we are now charged with being merely destructive critics, I maintain that it is our rightful function until the finances of this country come to our hands. Even if we suggest any constructive measures, they are not likely to receive any consideration or attention at the hands of the Honourable the Finance Member. For instance, we have been asking him to tax the export of gold. Far too much of gold is going out of this country, nearly 300 crores of gold was exported. Why not put a tax on it? Moreover, are there not many articles of import which compete with our village industries, articles of art, silk, and so on, which destroy practically the village industries? He can tax them. That will promote the village industries. As for alternative proposals, it is a fruitless task so long the Treasury Benches frame the Budget for expenditure for this side to go on with alternative proposals for finding revenue. I think there is scope for improving the revenues of the Central Government without taxing sugar.

While I am on this subject I would like to make one suggestion. The Finance Member has promised to overhaul the income-tax law and to place it on a more sound footing and also to explore avenues for increased income-tax. I would remind him that there has been a demand for a long time for the taxation of higher agricultural income, giving relief to the smaller agriculturists and for placing the land revenue system of the provinces on a more

[Mr. V. Ramadas Pantulu.]

satisfactory basis. This has a direct bearing on the Central Revenues because it will benefit the centre as well in more ways than one. I personally believe that the scheme is one which is full of potentialities. The Provinces ask for subsidies from the Centre. The Provinces may be told that they have also got an expanding and elastic source of revenue, which they may tap. The Permanent Settlement of really one-third of the British Provinces is an anachronism which ought to be undone. I think the zemindars ought to be treated like other agriculturists and landlords and the Permanent Settlement should be abolished, and the Provinces should be enabled to get their due share of revenue from land. In my own province of Madras, the zemindars realise from their tenants annual revenue even on the basis of the Government rates of land revenue in the ryotwari tracts, about 2 crores—and what do they pay themselves—perhaps less than Rs. 50 lakhs. Why should the Government of Madras forego a revenue of about 2 crores which should legitimately go to them while asking the Central Government for a subsidy for running the administration? So it is in Bengal and so it is in the United Provinces. All these big landlords ought to be subjected to normal taxation and the land should pay its proper revenue to the Provincial Governments, and the Central Government should benefit in its own way by levying income-tax on higher agricultural incomes. The suggestion I make may seem revolutionary just at present but in a short time you will find that the clamour for it will be so great that neither the Provincial Governments nor the Government of India will be able to resist it.

In conclusion I must say that India is bound to be greatly dissatisfied with this year's budget. It fully carries out what I might call the Griggian tradition and the Finance Member's apathy in regard to planning for the economic reconstruction and industrialisation of India. I think in future "Griggism" will denote apathy to economic planning and reconstruction and industrialisation, and that word may soon find a place not only in Indian economic history but also in Anglo-Indian lexicons. May not we ask the Finance Member whether it is not his concern to go more fully in his budget speeches into the economic condition of the masses and to deal with depression, unemployment and the hunger of the masses? If he does not do so then the speeches and discussions in this Legislature will hardly serve any purpose. I think the hunger march of the starving millions in batches during budget session to his doors will be a much more potent factor in reminding him of his duty than a general discussion in this House.

THE HONOURABLE MR. HUSSAIN IMAM: Mr. President, the budget papers which the Honourable Finance Member has presented to both Houses of the Legislature portray more fully than any words that we could utter the absolutely anti-national character of the present Government and of the unscientific nature of its taxation proposals. Sir, the general tendency in the world is that when there is prosperity in a country the finances of its government usually benefit. But here we have the opposite happening. When we were in a time of depression, when our purchasing power was reduced, the Government was comfortably off. But as soon as better times came, the Government finances started going down. It is a strange coincidence that the beginning of the Montford scheme was also heralded by a spectacular deficit such as we are having this year. This is not a very auspicious beginning.

I have been a bit handicapped by the disappearance of two very important statements from the memorandum supplied by our Honourable colleague

Mr. Nixon. I refer to the disappearance of the debt position of the Government of India which used to be a feature of the former memoranda. I know it is very difficult for Mr. Nixon to crystallise the fluid state of affairs caused by the separation of Burma and the inauguration of the provincial reforms. But at least he could have given us a provisional figure to indicate the liabilities that we have to assume owing to this innovation. But perhaps it was due to the anxiety to hide the implications of the inauguration of this scheme that has prevented the Finance Department from giving us these statements. I do hope that before we consider the Finance Bill he will make good this deficiency.

Another item in which he has saved a bit of paper was that he omitted to give us any details of the central excise income, which we used to have formerly. As it is the figures of our income are very meagre, and we do not get sufficient information on those heads. The memorandum does not say how much we are going to get from the different heads which make up the central excise. This is a very essential statement and I do hope this deficiency will also be made good.

Now, Sir, our Honourable colleague Mr. Basu remarked that he found the stamp of the Finance Member in the Budget statement of this year. I am sorry to disagree with him. It is rather said that the Honourable Finance Member has not been able to live up to his reputation. All his former caution has been thrown to the winds, and now we have a strange Budget statement in which all the rules of sound finance have been turned down, and opportunism is visible everywhere. Let me analyse the basis on which I make these charges. First of all, let us consider the surplus of 1935-36, which had set aside for the purpose of making good the deficiency in the coming year. That was a departure from his former attitude—I may say his militant attitude—that no surplus should be utilised for reduction of taxation, which was his attitude in the first year.

THE HONOURABLE THE PRESIDENT : It may be a departure, but it is perfectly legitimate.

THE HONOURABLE MR. HOSSAIN IMAM : That is exactly what I mean to challenge. It was a departure and it would not have been challenged if—and it is a big if—the condition precedent had existed. The condition precedent was that we should end the current year with a surplus or at least balance our accounts. You know, Sir, that in no democratic country can a budget surplus be passed over a deficit year. The first charge on the revenue reserve is to bridge the deficit in the immediate following year. When he laid down this Reserve he had budgeted for a surplus of 6 lakhs in 1936-37, but he finds the year is ending with a deficit of 197 lakhs. It is a well known canon that when a year is about to end you cannot impose taxation to make good the deficit, but in a year not yet begun you can impose taxation. Therefore if there is any deficit in the current year it is a first charge on the revenue reserve. This has been the practice of the Government of India all these years. In no year when there existed a revenue surplus has a deficit been left uncovered. We have always drawn on our revenue reserve to tide over the deficits. This sound principle of finance has not been acted upon because probably the Finance Department was afraid that the imposition of a large amount of taxation would in some way retard the beginning of the Federation. Then the people would have got a clear idea of how defective and how costly the scheme of Federation was. Even the Indian States would have thought twice before joining a bankrupt body. But, Sir, this is not all.

[Mr. Hussain Imam.]

There are other items of opportunism too. In his speech in paragraph 13 he lays down certain rules for dealing with the payments by provinces ; that the interest portions would be credited to head 11 and the capital portion would go straight to the sinking fund. Now, why was not that principle followed in the case of Burma ? The Honourable the Finance Member has accepted in the other place yesterday the theoretical soundness of this proposition. I neither agree with him that the whole of this should be credited to the revenue nor with the criticism in the other place that the whole of it should go to the capital account. The only course, and the one just course, was that which he has adopted in the case of provinces ; and that is exactly what he ought to have adopted as a straight financier, if he wished to live up to his reputation ; but then it is rather difficult to live up to reputation when one gets a high reputation. Then the third item in this is that the payments which we are receiving from Burma of 92 lakhs on account of pensions, that too is not based on actuarial basis on the present commitments. That payment will cease in 20 years' time. It is in the nature of amortisation payment and therefore a portion of that 92 lakhs also ought to have been credited directly to the sinking fund part of our disbursement and it should not have been credited to revenue. Sir, we find that the Honourable the Finance Member has done all these things which he would never have done in other years, as he knows that in the long run it is better to be cautious than to be optimistic and imaginative. As I said when the Honourable Mr. Basu was speaking, he repudiated in the other place imaginativeness. But adversity makes strange bed fellows. He is coming down to our level, falling ; he cannot help it ; he needs must when the devil of a Federation drives.

Sir, there are items in the budget which make us open our eyes ; one of those is that in all the 15 years of the Montford scheme we have laid by 68·31 crores for reduction or avoidance of debt. But in four of these 15 years, that is, the 1st, 2nd, 10th and 11th year, we have eaten up 68 crores in deficit ; so the net result has been that we have been able in 15 years to make up the deficits of 4 years only. And with such precedents, is it right for him that he should leave the present deficit uncovered by the revenue surplus, that he should have recourse to devious means of taking revenue surplus back to a new year without thinking of the year which is still current ? But perhaps he has been cautious and the revised estimates do not disclose the correct figures. He expects to get more revenue than he is prepared to admit. I do not know what is behind, but that might be the reason.

Then, Sir, I do feel that the speech of the Honourable the Finance Member lacks in certain very essential features. It gives us nothing more or less than the auditors' report of the company's account which does not at all contain, like the managing director's report, some indications of the past management and proposals for the future and promises for betterment. We used to have in the time of Sir George Schuster a statement about the trade conditions, about purchasing powers—

THE HONOURABLE THE PRESIDENT : But you have said he is very cautious.

THE HONOURABLE MR. HUSSAIN IMAM : I do not say that he has deviated from that, but what I do say is that it is an auditor's report and not a statesman's statement. There should be something more in a Finance Member's speech than a mere statement that Re. 1 is the income and 15 annas

and 11½ pies the expenditure, and a surplus of a quarter of a pie. That is not the statement which the Honourable the Finance Member ought to make. He ought to make some promises; he ought to tell us what he is doing to bring prosperity to the country. There is nothing stated. We are on the way to better times, but no thanks are due to the Government. Last year I stressed on the fact that the cheap credit for the Government is not the correct criterion to base our estimate, but the sure pointers are increase in purchasing power indicated by a rise in commodity prices and an increase in export trade. Both these indicators are favourable. They say that internal prices have increased and our export trade too has increased, but the increase had not been brought about by any action, concerted or unconcerted, of the Government; it has automatically come about by an increase in the demand of our purchasers. And here I should like to say a word that India must realise that payments of external trade are not made in cash. If we want the export of our raw materials we must be prepared to buy foreign goods. There can be no export trade without a counterpart import trade; but there is one thing that England must remember, that our invisible imports in the shape of 40 crores which we have to make for our expenses in England must be counterbalanced by increased purchases by England; otherwise, we would not be able to pay back our indebtedness. Sir, while on this subject, I should like to thank the Finance Department for having once in 15 years done the right thing, that is, repaying a sterling loan without incurring a fresh sterling liability. This is the first time during the Montford scheme that this has been done. I have been, as you know, for the last 6 years, agitating for this desirable end to come. Sir Basil Blackett made an innovation, or rather he chalked out a new path—our chief borrowing market ceased to be England and he started borrowing in India. I hope the Honourable Sir James Grigg will make a new departure and whenever there is an occasion he will reduce our sterling liabilities as much as he possibly can. But as there are no sterling maturities for 5 years, I wish the Government would utilise this interval to purchase as much of our sterling paper as they can from the payments which they are receiving on capital head—payment from the provinces towards capital, payment from Burma towards capital and our own provision of three crores for reduction of debts. All these moneys, as far as he can, should be utilised for the purchase of our sterling scrips and their cancellation. If we repay to England we are doing no disservice to England because there are ample applicants for funds in Great Britain and money would not lie idle. And by every reduction in our expenditure abroad we are increasing the purchasing power, and that may be utilised for the purchase of British goods.

Sir, I am also glad that the provident fund interest rate has been reduced to 4 per cent. from next year. You will remember, Sir, that during the last Railway Budget discussion of 1936, I drew pointed attention to the fact that our interest payment on the provident fund was extraordinarily high. The Railway Member was pleased to tell me that the interest is paid by the general revenues but he forgot that general revenues as bankers of the Railway charge interest at their over all rate and therefore any reduction in the interest rate of the Government of India is directly reflected in the Railway Budget. There is, Sir, one very significant thing which has passed unnoticed. Sir, the Finance Department have done a distinct service to India, for in spite of the fact that they have been unduly generous to their own service depositors, they have been able to reduce the interest charges from 53 crores to 46 crores—a reduction of 7 crores in 7 years—that is a magnificent achievement for which they deserve credit. But neither they get credit nor condemnation for their misdeeds.

[Mr. Hossain Imam.]

Now, Sir, I come to certain statements and informations which I hope the Finance Department would give in future years if not in this year. First and foremost is, Sir, the Silver Redemption Fund. That fund was created with the inauguration of the Reserve Bank, but since then we have heard nothing about it. How is that money invested? That is not an operative fund like the Reserve Bank where it would be inadvisable to give out a statement. It was possible to give out quarterly statements of the investments of the G. S. R. Why is not a similar thing done with our Silver Redemption Fund? We know, Sir, that we are drawing a very small income from that Fund. The value had to be underwritten—I do not know why, because the Honourable the Finance Member was too thrifty with words and would not give us any information under that head. Similarly, Sir, there is not a word in the budget statement as to what has happened to the 50 crores of rupees which was withdrawn when the Reserve Bank was formed. Has all that silver coin been melted and sold or is it still lying in the vaults of the Government? No one knows. We have this year to pay Rs. 5 crores to the Reserve Bank. Probably it will be borrowed interest paid while we have an enormous amount of silver rotting in our treasury chests. We could save lakhs and lakhs of rupees, I think about Rs. 15 lakhs, if we were to utilise our silver surplus. We would melt down our silver surplus and pay the Reserve Bank from the proceeds thereof. The agreement with the silver producing countries and silver sellers which was concluded and which is to expire in the next year allows us to do this. I think, Sir, the Government would be well advised to utilise our surplus rupees and should not follow the example of the Indian masses and start hoarding. He may make the excuse that probably the silver that is bought is for hoarding purposes. Why not sell from your own chests and let the people have it, so that our favourable balance of trade may be saved? If you are not prepared to sell silver outside the country, why not sell it inside the country? You won't do it because it will reduce your income, the income which you are going to get from your import duty on silver. But it will increase your income. If you sell it outside you get 20*d.* to an ounce, but if you sell it inside the country you will be realising about 24*d.* So you are out of pocket in one place and you gain in another place. There is nothing intrinsically wrong about this business.

Sir, one new change which the Honourable the Finance Member is introducing in the accounts of the Government of India is that the separate head of English expenditure will disappear. This, Sir, has a sinister objective. Due to the retrenchment campaign our Indian expenditure has gone down enormously while our English expenditure has remained almost at a stand still. In order to hide this glaringly unjust non-reduction of our English expenditure probably this thing is being done. We cannot force the Government to deviate from their purpose, but at least we hope that in the memorandum we will get the total figures of our English expenditure, otherwise it will be impossible to collect the figures of our English expenses. We know, Sir, the future taxation proposal. I shall speak on that at some length at the time of the Finance Bill but here I should like to say that the Government must realise that in the present day of controlled production, the *laissez faire* attitude which they have adopted in respect of the protected industries will not pay. The imposition of an additional excise duty will have a good as well as a bad effect. No doubt it will retard the establishment of new factories. It may reduce the profits of the shareholders but at least it will do one good thing. It will stop the undue growth which are detrimental to the industry itself. But internal prices in India have ceased to have any

relationship with the imported prices because the internal competition is so great. Our Honourable colleague, Mr. Ramadas Pantulu, wanted that we should produce more sugar so that we may be able to export. I am sure the Honourable the Finance Member would favourably consider any proposal for a rebate of excise duty if and when there is an export of sugar.

THE HONOURABLE THE PRESIDENT: Where would you export ?

THE HONOURABLE MR. HOSSAIN IMAM: That is for Mr. Ramadas Pantulu to explain. Our cost price is much higher than the c.i.f. price in Calcutta. Therefore it is out of the question to consider the feasibility of our exporting sugar.

THE HONOURABLE MR. V. RAMADAS PANTULU: May I just say one word of explanation, Sir ? All that I wanted to say was that facilities must be given and time given to make the industry able to produce sugar at a lower cost to enable India export to other countries. That is what I wanted—that time must be given to consolidate our position.

THE HONOURABLE MR. HOSSAIN IMAM: Well, Sir, the sugar industry has done wonderfully well. It has been able to sell at a figure lower than the Tariff Board Report's figure. But very few people realise that this has been done at the cost of the poor agriculturist. In my part of the country there are two kinds of areas. In one, the Government has fixed the rates for sugar cane. In others, where there are a few companies, the rates have not been fixed. In those areas where the rates had been fixed, my Government lowered the rate because the sugar mills could not pay 5 annas ; in the other areas where there is no control, the prices are below 4 annas. The cultivators are being put to great difficulties because they have increased their area under sugar cane and there is no market. So, in order to have co-ordination, you should have centralised governing bodies controlling the production of each protected industry. For each industry there should be a Central Board consisting mostly of the manufacturers themselves, with a few representatives of the people to represent the consumers' interests, and a man or two from the Government benches to look after the Government interests.

THE HONOURABLE MR. BIJAY KUMAR BASU: You want Dictators, not a Board.

THE HONOURABLE MR. HOSSAIN IMAM: No Dictators for me. Have you forgotten jute ? What is the trouble with jute ? Those who are outside the jute combine are the controlling forces. They force those who are in the Association to forego their restricted production. You have this sort of thing everywhere in our country. If one man goes out of your Association, he starts manufacturing and working over-time—night shifts—increasing production. What will others do ? They will follow suit. There is a glut in the market and the whole industry goes fut. We are apt to follow the old English precedent of leaving things to take their own course, and do not copy new British innovations.

The Honourable Mr. Ramadas Pantulu was a very severe critic of the Permanent Settlement. I do not know how this subject can be brought in as part of the Budget discussion. Permanent Settlement or no Permanent Settlement has nothing to do with the Government of India. In the Centrally

[Mr. Hossain Imam.]

Administered Areas of our Government I think there is no Permanent Settlement. There is the ryotwari system or the temporary system of settlement with Zemindars.

THE HONOURABLE THE PRESIDENT: He only indirectly referred to it when he was speaking about the benefit to the agriculturist; otherwise I would have stopped him myself.

THE HONOURABLE MR. HOSSAIN IMAM: If Permanent Settlement is to go, the industries also should be nationalised. We should have a full fledged socialistic Government with all the key industries, Banks and everything else, controlled by the State. All lands and industries should go to the State. We should sink or swim together.

Sir, there are certain items in the speech and in the papers which I have not been able to understand and I hope the Honourable the Finance Member will enlighten us on those points.

THE HONOURABLE THE PRESIDENT: You have already taken your half hour.

THE HONOURABLE MR. HOSSAIN IMAM: I would not take more than three minutes on these two items. I refer to paragraph 7 of the speech where he says that there is an increase of 46 lakhs for expenditure due to a heavier discharge of cash certificates in the revised estimates. Sir, I was under the impression that the provision in the Budget was on an actuarial basis, and not on the actual payment of interest. If on that basis we make provision for all the interest charges that might accrue on the deposits in hand, then there is no reason why a greater or less discharge should in any way affect our figures, at least of revenue, because the repayment of the capital portion of the cash certificates is made from the capital head. We only pay the interest portion from the revenue. The interest portion being on an actuarial basis, there cannot be any change due to a greater discharge, and no reduction on account of a lesser discharge should be made. The money will remain to credit of the fund; I should like the Honourable the Finance Member to explain this.

There is another item on page 131 of the Detailed Budget Estimates. I find there that the Payments to Post Office for Savings Bank and Cash Certificate work is 69·11 lakhs for the coming year. But in the Posts and Telegraphs Department Estimates on page 57 I find that the credit there is only 55·60 lakhs. Now, there is either an over-estimate in one or an under-estimate in the other. This is the impression on the face of it. But I think that the Finance Department is too careful to do this sort of thing. They would not allow a difference of 13½ lakhs to remain in their accounts by oversight.

THE HONOURABLE THE PRESIDENT: I am sure if you had seen the Finance Secretary this morning before the debate began, he would have gladly given you the information on the subject.

THE HONOURABLE MR. HOSSAIN IMAM: Probably it is bad accounting, which is responsible for this.

THE HONOURABLE THE PRESIDENT: That is a matter of opinion.

THE HONOURABLE MR. HOSSAIN IMAM : This shows that if the Posts and Telegraphs Department have under-estimated, there will be a surplus which we would be entitled to ask them to give to our relief; or if it is an over-estimate in Demand No. 11, the deficit is reduced and the taxation proposals should go to that extent. But personally I do not think that this is the explanation. Probably it is bad accounting and the thing is hidden somewhere and cannot be easily found.

Sir, we have not been allowed to discuss the final implications of the separation of Burma and it would be difficult to deal with that subject in the Budget discussion. There are any number of questions arising from the separation of Burma, which we cannot ventilate except by having a day set apart. I would therefore request the Finance Member to give us a day to consider this subject.

THE HONOURABLE THE PRESIDENT : That cannot be done. There is nothing to prevent you from putting in a Resolution on the subject.

THE HONOURABLE MR. HOSSAIN IMAM : Some Honourable Member has already done that or will be doing it in the near future, if Government do not give us this facility. But I wish to have a separate day so that this will not deprive us of the discussion of other Resolutions. Non-official days are for all of us and the Burma question is so big that it may eat up the whole day.

THE HONOURABLE THE PRESIDENT : You know that last year the Leader of the House was so good as to give you one additional day for the purpose of non-official business. If something like that happens this year also, he is sure to listen to you.

THE HONOURABLE MR. HOSSAIN IMAM : I hope he will heed your advice and give us an additional day in the future.

Sir, before I conclude I must say that the Honourable the Finance Member has not given us a complete picture of Federation. The formation of the Federation is a losing game. States should be

THE HONOURABLE THE PRESIDENT : Surely you are not going into such a big question at this stage. You have spoken for 35 minutes already.

THE HONOURABLE MR. HOSSAIN IMAM : I am not going to dilate on it. I am just saying that he should have budgeted in a strictly sound manner, either by increasing his income or reducing expenditure. But until he is able to give a stable budget, I think the Princes should consider twice before they enter the future Federation.

THE HONOURABLE RAI BAHADUR SRI NARAIN MAHTHA (Bihar : Non-Muhammadan) : Mr. President, as this is the first occasion when as one of the representatives of Bihar, which was severely hit during the terrible earthquake of 1934, I have the honour to address you, and the occasion, through you, to address the Honourable Members representing the Government of India, I hope you will permit me to precede my remarks on the subject matter of the budget before us by an expression of gratitude on behalf of the people of Bihar for the financial help that was so spontaneously extended to us by the Government of India at a time when we were in the grip of severe calamity. That help has enabled the Provincial Government, and more particularly the local bodies, to resuscitate themselves and has brought cheer to

[Rai Bahadur Sri Narain Mahtha.]

the destitute peasant and the ruined tradesman, whose debt of gratitude to some non-official agencies like the Congress, the Marwari Society and the Servants of India Society, of which the worthy President is an Honourable Member of this House today, is also great and unforgettable.

Coming now to the budget, I disagree wholeheartedly with the platitudes the Honourable Mr. Basu showered. I do, partially, agree with what the Honourable the Finance Member himself said in introducing it, that "it is a story of disappointment". I only wish to add that it is a story of far deeper disappointment than the Honourable Member seemed conscious of, or wanted to acknowledge. The gravest disappointment that the budget presents is not in its arithmetic, which is all that the Government seem to have looked upon with any concern, but in its outlook. The present budget is in line with its predecessors in being irresponsible to the criticisms and suggestions that, from a perusal of the previous debates in this or in the other House, I find made year after year. I anticipate that I shall be told that it is not possible to incorporate in the budget all the suggestions made, many of which are contrary to each other, and some open to question with regard to their soundness. I admit that there is this practical difficulty. But the complaint that I make is that the general trend of those recommendations and criticisms ought to have been recognised, their spirit ought to have been imbibed and a sincere effort made to mould the budget on popular lines. The budget to make itself commendable must, in the main, be able to show that it is the people's budget, that the Government exists for the people and not the people for the Government. But the Budget year after year continues to be the Government's Budget and shows no appreciable sign or move towards lifting the balance of the scale on the just side.

Going merely through the headlines of the Budget, showing the different channels of our activities, we find that they are indeed so varied as to credit the Government of any of the modern progressive States. But disappointment begins to overtake us when we go past these misleading signboards, enter the portals and discover the top-heavy character of the administration and find provision made only for a large number and variety of officers, who, true to the system they represent, lie hidden in remote inaccessibility, tied to their chairs in red-tape. The central complaint of the people of this country is against the attitude of the Government, against the bureaucratic perspective. I submit, Sir, that more and more attention should be paid to cultivating and nourishing a more vital contact between the officers of the various departments, particularly the departments that aim at helping agriculture, industry, public health, etc., and the people they want to serve. The officer who wants to deal with the villager and lead him to take to better ways of cultivation and living must go to him like his brother and make himself a real instrument of service. Prosperity cannot be achieved only by compiling statistics and regular submission of reports on prescribed forms. It is the spirit of service that should dominate his behaviour and work, so that the villager may give up his present aloofness and be drawn to him. If this is not done, bulletins and broadcasting, over which the Government of India spend not an inconsiderable amount, would turn to be of no avail.

Coming events cast their shadows before and the coming constitution has cast a deep shadow on the budget. Apart from the annuity recoverable from Burma under the Amery Award during the course of the next 45 years on account of debts, other liabilities and pensions, the net loss on account of separation of Burma would be 5 crores and 56 lakhs. Provincial autonomy accounts for a reduction of 51 lakhs in revenue and an increase of 1 crore and 34 lakhs in expenditure. The additional burden falling on the budget for

1937-38 arising from constitutional changes is estimated to amount to 4 crores and 18 lakhs. Whatever may be the other merits or demerits of the coming constitution, the budget before us is enough to show that it is financially lame. This, however, is not the proper occasion to eulogize or condemn the coming constitution except in so far as it affects our finances. The Finance Member is optimistic about the ability of India to pay for the unwanted blessing of the new constitution. But, now that we are on the threshold of the new constitution, I would like to sound a note of warning to the Government of India. My warning is this, that if it is their desire that the country, howsoever disappointed and dissatisfied, should still be able to make the best of a bad bargain, if the Government do really want that the new Reforms, going to be born on a Hartal day, should not die in its cradle, they must see that the provinces do not find themselves reduced to the need of undertaking fresh taxation in order to support the burden of the so-called autonomy with which they are to be blessed. Nothing will kill the reforms sooner than forcing by circumstances the Provincial Governments to resort to fresh taxation or even for the Government of India to undertake centrally to tax in order to meet the high cost of administration here and in the provinces. Therefore, I want the Government to adopt a bold, straightforward and business-like policy. I want them to pick up the axe and lop off from the top some of the many overhanging heavy branches and to make the structure more harmonious, such as the roots, without damaging themselves, may sustain.

With this short criticism of the general character of the budget I shall pass on to the second part of the speech of the Honourable the Finance Member in introducing the budget proposals of 1937-38. The Finance Member in proposing an enhancement of the sugar excise from Rs. 1/5 to Rs. 2 per cwt. and lowering the protective import duty from Rs. 9-1 to Rs. 7-4 per cwt. has enunciated a miraculous proposition. He contends that while he can draw no less than an additional income of 1 crore and 15 lakhs from the sugar industry, the industry, instead of suffering, will gain in stability. The increased tax, he thinks, will not hit the manufacturer, be felt by the consumer nor noticed by the grower. This is a rare feat of financing, almost verging on black art, commonly called magic. The important part played by sugar industry in these days, in the economic life of the people of this country, can be visualised from the replies given in this House on the 16th of last month by the Honourable Sir Jagdish Prasad to questions put by the Honourable Sardar Buta Singh. It was stated that the area under sugar-cane was roughly a million acres more today than in 1926-27. The estimated production of sugar cane had gone up from 35-1/3 crore tons to over 61 crore tons during the last 10 years and the amount paid to growers had mounted from 19 crores of rupees to about 40 crores. The industry provides employment to about 2 hundred thousand skilled and unskilled labourers and thousands of educated scientists and others. The return to Government coffers from income-tax on factories apart from what is realised from employees is about 30 lakhs a year and the income to Railways is also very considerable indeed. I submit, Sir, that the economic prosperity induced by the industry more than sets off the loss in revenue to the Indian exchequer. The picture of loss has apparently been overdrawn by the Finance Member in taking for comparison the receipts of 1930-31 when import duty contributed 10½ crores and not taking into account a year like 1923-24 when receipts were only 3-1/3 crores.

I am, Sir, a sugar cane grower on a moderate scale, and know from practical experience what a narrow margin of profit the cultivation affords to the grower at the present market rate. The Honourable the Finance Member is labouring under a wrong notion that the industry is over-protected. It must not be

[Rai Bahadur Sri Narain Mahtha.]

forgotten that before the protection was granted, i.e., before the Tariff Board reported, the revenue duty on sugar was Rs. 6/12 per cwt. To leave it now at Rs. 7/4 and to raise the excise by 11 annas a cwt. is to reduce the protection to a dangerously narrow margin which would mean sure ruin to a number of mills, loss to capital, fall in income to the grower, and unemployment to the people. It will unduly increase the burden of the consumer in the interest of foreign import. If the industry is passing through a crisis, Government should step in and check the rate-cutting in the price of sugar cane to the grower. If this is done it will have the wholesome effect of checking over-production and also lead to the general amelioration of the agriculturists.

A word, Sir, about the increase of duty on silver, and I have finished. May I start by asking why Government did not think of imposing an export duty on gold instead of imposing an import duty on silver, which, as a metal, is used for various purposes by the middle class people? There has been an insistent demand for a duty on gold in order to check its flow into England and America. Government owe to the people of this country a straight answer.

With your indulgence, Sir, I will just say a word with regard to the light hearted and inconsiderate suggestion made by the Honourable Mr. Ramadas Pantulu regarding the abolition of the permanent settlement. I would like to point out to him that very few or none of the present zamindars are those with whom the East India Company originally settled their lands. Quite a large majority of the present zamindars are those who have bought at full price their zamindari out of their earnings, in most cases life-long earnings. How does he propose to treat them? They invested their earnings from legal, medical or engineering professions or from trade into land and bought zamindari, finding the investment to be honest and sound.

THE HONOURABLE THE PRESIDENT : You need not discuss that question at length now. I have already informed the Council that he spoke with reference to agricultural prosperity only.

THE HONOURABLE RAI BAHADUR SRI NARAIN MAHTHA : But, Sir— he mentioned that as a means of financing the Budget.....

THE HONOURABLE THE PRESIDENT : We must confine ourselves to the budget before us.

THE HONOURABLE RAI BAHADUR SRI NARAIN MAHTHA : I have only got to point out that the great organisation, which the Honourable Mr. Pantulu here represents, the Congress, has not anywhere, to my knowledge, given any official indication of their intention to abolish the permanent settlement and I am afraid the Honourable Mr. Pantulu has not been circumspect in regard to his observation in the matter.

THE HONOURABLE THE PRESIDENT : The Council will now adjourn till 2-30 in the afternoon.

The Council then adjourned for Lunch till Half Past Two of the Clock.

The Council re-assembled after Lunch at Half Past Two of the Clock, the Honourable the President in the Chair.

THE HONOURABLE MR. GOVINDLAL SHIVLAL MOTILAL (Bombay, Non-Muhammadan) : Sir, If one must give a name to this Budget, one can call it neither a rich man's budget, nor a poor man's budget nor even a middle man's budget ; for there is relief to none from the crushing burden of taxation. One may, I suppose, have to be content by calling it an Englishman's Budget with all the characteristics of his race. In spite of depleted stocks the budget bravely displays the sign-board " Business As Usual " and the financial statement is marked by an abundance of self-complacency and distinguished by lack of constructive imagination and ability to see ourselves as others see us.

At the outset, one must, in common fairness, concede that the Honourable Finance Member has been proved right in two things—in being cautious regarding revenue in view of the uncertainty of the yield from the sugar import duty and in his provision for a Revenue Reserve Fund to meet liabilities in the first year of Provincial Autonomy. Nor can I find fault with the careful presentation of the financial position which is done with a book-keeper's eye for detail regarding the receipts and outgoings. But there is no evidence in the budget statement of an adequate appreciation of the factors that will safeguard the general well-being of the people and at the same time help forward the economic development of the country, which alone can relieve us of the present financial stringency. There are brief references to the slight improvement in the Railway finance, to a certain rise in the price level of India's raw products, the recent increase in the exports and some improvement in the balance of trade. But there is no evidence of an adequate realisation of the fact that all these are largely the result of abnormal factors, namely, the war scare in Europe resulting in rapid rearmament and storing up of supplies in apprehension of war. For all we know, the slight recovery at present may prove shortlived. In these days of quotas, high tariffs and currency war, we cannot trust in Providence or international good-will for a continued improvement in the economic position of our country. We have to take active steps to improve our export trade, which by increasing the purchasing power of the people will, to some extent, stimulate the import trade also. Considering the rapid increase in India's population, the total consumption of goods remains at a depressingly low level. Instead of any evidence of a desire to adopt far-reaching measures to improve the basic economic position of the country, one finds, on the contrary, a certain spirit permeating the financial statement which gives rise to serious apprehension. I may refer, for instance, to the hyper-critical attitude towards Protection of Indian Industries, and complete satisfaction with the present ratio and the persistent refusal to borrow when rates are low, either to meet capital expenditure like the reconstruction of Quetta or in order to acquire the Company-managed Railways and thus reduce the foreign liabilities of India.

Sir, one cannot help feeling that it is this unsympathetic frame of mind that is responsible for the fact that as soon as the Honourable the Finance Member finds himself in a tight corner, his first thought is to raise the excise duty on sugar—a national industry which bids fair to make us self-supporting at least in one of the primary articles of consumption. Regarding the Honourable the Finance Member's anxiety to tighten up the administration of revenue by closing possible loop-holes, one cannot fairly quarrel, provided this is done in a fair and judicious way. But unfortunately one does not find adequate evidence of an equal anxiety to tighten up the administration of expenditure. I agree with the Honourable the Finance Member that one need not exaggerate the importance of a gap of one or two crores in a budget of 80 crores. But

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It is equally pertinent to remark that in an expenditure of such vast dimensions, it would not have been impossible to effect retrenchment of a couple of crores, if only there had been the will to do so.

One may refer in this connection to the economies suggested by the Retrenchment Committee and the continuation of the Lee concessions, notwithstanding the fall in the cost of living. With an adequate cut in expenditure, there would be no necessity to apply the axe to a growing national industry like sugar, specially when a review by the Tariff Board is so close at hand.

Sir, I am surprised to find that the Honourable the Finance Member draws satisfaction even from the fact that the effect of the enhancement of the excise duty will be to drive out of existence what he calls the weak and inefficient producer. I for one am not prepared to regard this as a desirable result. I would prefer that he were spared this blow and had an opportunity of improving his efficiency. This increase in duty will add to the cost of sugar produced both by the weak as well as the strong manufacturer and will adversely affect both. I am also unable to subscribe to the reasoning of the Finance Member that the higher duty will benefit the cultivator of the sugarcane. On the contrary it is obvious that there will be less demand for his cane when some factories cease to work. The Honourable the Finance Member, I am afraid, is claiming too many virtues for his proposal. It seems to me, if anybody stands to gain it is the khandsari producer who will have an advantage to the extent of additional excise duty levied on factory sugar. The growth of the sugar industry has added to the economic betterment of the people particularly of the northern parts where industrial development is comparatively of recent growth. If the Finance Member's proposal is accepted, the industry will lose even the marginal advantage of 8 annas per cwt. which it has hitherto enjoyed.

Sir, my objection to the enhancement of import duty on silver is based on two grounds. First, all treasure such as silver and gold should have free entry. Secondly, silver is a metal in which small men in the villages hold their savings with a view to fall back on them in times of dire distress. Before resorting to this desperate measure, it was open to the Honourable the Finance Member to subject to income-tax pensions and salaries, interest and dividends earned in India by persons residing outside, as recommended by the recent Committee.

Sir, one is glad to note that the 5½ per cent sterling loan of £17 millions was repaid during the current year and to that extent our foreign liabilities are reduced. But one cannot see the wisdom of refraining from issuing a rupee loan to meet our Capital outlay when rates are so low. With due deference to the opinion of the Honourable the Finance Member, I venture to hold that the expenditure of 7 crores on the reconstruction of Quetta is essentially of the nature of Capital outlay. I have no objection to making provision from Revenue for the Interest and an adequate contribution to strengthen the Sinking Fund; but one cannot help strongly protesting against the policy of saddling the Revenue with the entire amount of the Capital outlay. I am aware the Honourable the Finance Member holds strong views on this question and is emphatically opposed to borrowing money to meet expenditure in Quetta, as he said last year, "It is contrary to strict financial orthodoxy to borrow for expenditure which does not yield a cash return equivalent to the interest and sinking fund charges on the amount borrowed". "I know", he added, "that this strict view has not always been followed in India".

Sir, I beg to point out that it is not only in our benighted India, but even in his home country, such a fetish is not made of what he calls strict orthodoxy.

May I, for instance, know if the huge Defence Loan that the British Government is issuing is of a productive character? Can it yield a cash return equivalent to the Interest and Sinking Fund charges on the amount borrowed? One wonders what this huge Defence Loan will produce except a first class war. It may be mentioned that the financial Pundits of the British Labour Party are opposing the British Defence Loan, among other reasons, on the ground that the method of raising money by loans for such expenditure violates the canons of sound finance. To this criticism the Chancellor of the Exchequer, Mr. Neville Chamberlain, gave a fitting reply, while moving the Second Reading of the Defence Bill a week ago. After reiterating his horror of Europe's rearmament and the "unproductive" expenditure in which it involved the nations, Mr. Neville Chamberlain declared that the Labour Party's suggestion that the whole of the defence expenditure should be met out of the current revenue necessitating the imposition of fresh and crushing taxation was pushing financial orthodoxy to dangerous pedantry.

While the Government in such a rich country like Britain refrains from imposing fresh taxation and borrows when necessary, in a poor country like India the interests of the tax-payer are being sacrificed, I will not say lightly, but obstinately on the altar of financial pedantry.

I believe this very financial inhibition is partly responsible for the refusal to acquire the B. N. and M. & S. M. Railways, in defiance of the declared policy of the country in favour of State management. Here at least there was no question of an unproductive loan. The pleas offered in support of this decision are most unconvincing. Last year, I believe, the Commerce Member said that the Remittance position did not justify Government in undertaking these obligations. This was difficult to understand in view of the sterling balance accumulated by the Reserve Bank and the continued large offerings of sterling by the Exchange Banks. As regards the M. & S. M. Railway we are told that the Government thinks it would be feasible to amalgamate it with the S. I. Railway, the contract with which expires in 1945. One wonders what prevents the Government from acquiring the M. & S. M. this year and amalgamating it with the S. I. in 1945. The low rate of interest prevailing at present will not obligingly stay at that level till 1945.

Sir, it is reassuring to learn that in the first nine months of the current year the favourable balance of trade amounted to 50 crores against 19 crores in the corresponding period of the previous year. But one cannot, therefore, subscribe to the inference drawn from this fact by the Finance Member that it does not look as if the Rupee were over-valued. Year after year the Honourable the Finance Member is taking pains to impress on our mind that we are suffering from a delusion that the Rupee is over-valued. Last year he told us that although the Rupee was 1s. 6d. gold when the present ratio was fixed, today the Rupee is 10 to 11d. gold, presumably because the pound is no longer on gold standard. Even granting that in terms of gold the Rupee has depreciated in value, still in relation to the sterling, it continues to remain in the same old unfavourable position. This is still more true in the case of currencies which have depreciated even further. And this is after all what really matters and continues to act as a handicap on our export trade.

To return to the balance of trade, the recent improvement is there, not because of the present ratio but because of the present abnormal international situation. As the Commerce Member correctly recognised, the recent spurt in the export trade of India is largely due to the war scare. On the other hand, the contraction of our import trade, as suggested by the Honourable

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the Finance Member himself, may be ascribed in part to the difficulty and uncertainty which attends the fulfilment of order for manufactured goods from Europe, because of the rearmament programme in most of the European countries. These are the real reasons for augmenting our favourable balance of trade and not the present ratio so dear to the Finance Department.

For a debtor country like India to remain solvent, it is absolutely essential to have a large favourable balance of trade. How else are we to meet our debt liabilities to Great Britain? So far as Britain is concerned, we have still an unfavourable balance of trade. Besides this adverse balance of trade, India has to pay an annual tribute to Britain to the tune of about 60 crores in consideration of the invisible imports. For the last few years India has been able to settle her accounts with Britain by a heavy and disastrous export of gold—gold so necessary for the development of the national industry and the Indian home market. This frittering away of India's capital assets still continues, although one is glad to note that the net exports of treasure were reduced from 32 crores to 14 crores in the first 9 months of the current year.

Sir, regarding the British piecegoods, we are told that they have not so far succeeded in recapturing the Indian market in spite of the further reduction in duty, which, it may be recalled, was put into force without consulting Indian opinion. Sir, we have already gone far enough; and I do not see why we should consider ourselves under any special obligation to enable Lancashire to accomplish the reconquest of India. If in spite of the concessions already given Lancashire cannot take advantage, it is her own fault. If the prices of Lancashire goods have remained largely beyond the reach of the Indian purchaser, the Indian consumer is none the worse for it. The internal competition in the Indian textile industry is sufficient to safeguard his interests. It should not be difficult for a Finance Member, in a country like India so favourably placed for the production of textiles, to realise that for the Indian people to purchase foreign cloth is to purchase poverty and unemployment.

Sir, it is to be hoped that the Indian Government will not, in the impending negotiations for a new Indo-British Trade Pact, subordinate Indian interest to British interests.

Sir, on the question of Defence expenditure which we are threatened may rise higher than the present high level in the next few years, I will not say much; for we are painfully conscious of our helplessness to effect any drastic retrenchment in this spendthrift department. When we acquire the power and freedom to order the finances of the nation, we would not go in for mere cheese-paring economy, but we would courageously go forward with a sincere and radical policy of Indianisation both in the case of officers and the rank and file.

But things being what they are, I will content myself by giving only one warning to Government. Modern Defence and modern warfare have grown so complicated that it is no longer a mere question of the size of the army or the amount of armaments. The efficiency and the level of the economic structure behind the military lines play a far more decisive role in the defence of a country than in the past.

This was the reason why Tsarist Russia collapsed so completely before the forces of an economically advanced Germany. And the strength of Soviet Russia is considered by many to lie mainly in the remarkable development of Soviet industry and agriculture, rather than in the efficiency of the Red Army which is still an unknown quantity. You may, therefore, pour out year after year crores and crores of rupees on the army, on the strategic railways, on

aviation, on roads in Waziristan, on the reconstruction of Quetta ; but all these in the hour of crisis will be of little avail with an impoverished countryside in the rear and an infantile development of Indian Commerce and industry.

* THE HONOURABLE MR. R. H. PARKER (Bombay Chamber of Commerce): Sir, I would like in the first place to deal with one or two points which the Honourable Mr. Motilal has just referred to. I do not think that you can draw any analogy at all between Quetta and the rearmament loan in England. Quetta is a case of replacing something that you have lost ; the rearmament loan in England, if I rightly understand it, is to provide us with new factories, new plant and generally to provide for the wants of the future, not to replace something lost in the past.

In the circumstances in which the Honourable Finance Member has found himself on this occasion I think that his proposals for new taxation are sound. I am however by no means satisfied that those circumstances were completely unavoidable. He has himself referred in his speech in another place to the inevitable diminishing returns from high revenue duties, and for my part I feel that it would have been sounder finance at an earlier stage to reduce some of these duties with a view to avoiding income from this source being less than it would be with lower duties. I shall be very glad if the Honourable Member can assure us that the necessary preliminary examination of this point of view has been made and that when the opportunity occurs he will be in a position to make changes of this kind.

The Honourable Member knows far better than I do that this question does not only affect the revenues of the Government but it must affect the exchange position, and neither he nor I would like to be driven to the necessity of a 1s. 8d. rupee or to any change in the present rate.

Subject to these remarks I think that the most serious aspect of the budget is the Railway position. I think that it is being dealt with much too casually and unscientifically. As I mentioned when I spoke on the Railway Budget, I do not agree that there is any surplus available from the Railways which can properly be treated as ordinary income. I do not propose to repeat the criticisms which I have already offered on the proposal to charge to the Depreciation Fund and not to Capital any excess over the original cost when replacing an asset by an identical asset. I would only remind Honourable Members that this leads to over-stating profits, under-stating capital values and to failure to know from year to year what your real working expenses are, and is accordingly unsound.

The Honourable Mr. Nixon, when replying to my remarks on this subject the other day, said that he did not fully understand commercial accounts. I assume that it is because it was realised that Government Departments might need the assistance of those who were acquainted with commercial methods that the Constitution provided for representatives of certain Chambers of Commerce to sit in this House, and I would like to deal with one or two points arising out of what the Honourable Mr. Nixon said.

He suggested that you could not charge the cost of an asset of the kind we were contemplating to share capital and pointed out that share capital was a liability and not an asset. With that view I entirely agree. I would, however, like to draw the attention of the Honourable Member to Form F which will be found in Schedule III of the Indian Companies Act. The first

* Speech not corrected by the Honourable Member.

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heading on the Assets side in Form F is "Property and Assets—Fixed Capital Expenditure". Now, Form F is the form of balance-sheet which the Government insist upon in the case of Companies and this heading to which I have referred is the heading to which expenditure of the kind we have been discussing should be charged. Form F provides for distinguishing under this main heading, as far as possible, between expenditure on land, buildings, leaseholds and mentions other similar items. It goes on to say that in every case the original cost and the additions thereto and the deductions therefrom during the year and the total depreciation written off under each head have to be shown. You will note that the original cost has to be charged under this form of Balance Sheet to Capital Account as I said it ought to be and as I said the Railways ought to do.

If the Government of India will treat their Railway accounts in this way I shall be quite satisfied provided their depreciation is calculated over a reasonable life. I can see no reason why the Government of India should treat the Railways differently from any limited Company in this particular respect and I think they should prepare their accounts in a similar manner. I think they are setting a very bad example. If they consider that information of this kind should be available for shareholders there can surely be no reason why the same kind of information should not be provided for the information of the tax payer who owns the Railways. If for any reason it is impracticable to do this in respect of the past, there can still be no reason why additions to assets and replacements of assets should not be dealt with in this manner and to that extent the Railway records improved and increased in accuracy.

I would also like to draw the attention of the Honourable Member to section 183 of the Government of India Act, 1935. This section directs the proposed new Federal Railway Authority and lays down the principles to be observed by that Authority. I draw particular attention to the words in line 2 of the section; it is laid down that the Authority "*Shall set on business principles*" and further on that the Authority shall make proper provision for meeting out of their receipts on revenue account all expenditure to which such receipts are applicable under the provisions of this part of the Act.

Section 186 (2) lays down how the receipts on revenue account in any financial year are to be applied. The first item is "Working Expenses". Now, in my opinion, and in the opinion of a great many people, working expenses include depreciation accruing, but as the Honourable Mr. Nixon pointed out the other day, this view is not universally accepted and indeed those who were responsible for these provisions of the Act evidently recognised this because we find that depreciation is specifically referred to under 186 (2) (e), under which the receipts on revenue account have to be applied in making *due* provision for maintenance, renewals, improvements and depreciation. Now, "due" provision means the amount of depreciation accruing in the year in question in respect of the assets in use during the year in question. It does not leave it open for the Authority to say, "We have had a good year and we will put something aside for depreciation", or, "We have had a bad year and we can put nothing or very little aside for depreciation". It binds the Authority to make due provision for the amount of depreciation accruing in respect of a year and this is the amount of the provision which the Government of India ought to be providing for depreciation but which they are not providing.

It is only after provision has been made out of the receipts of the Authority on revenue account in any financial year, for full depreciation and all the other

expenses properly chargeable against revenue in any year, that the question of any surplus on revenue account arises, as is made perfectly clear by section 186 (3). The surplus therein referred to is a surplus after making all the provisions which have to be made under section 186 (2). We have on more than one occasion been told that nothing can be done which is contrary to the provisions of the Government of India Act, 1935, or contrary to the spirit of that Act. I cannot agree that the present methods adopted by the Government of India are in accordance with the provisions of section 186. They clearly are not. That in itself is bad enough, but, Sir, to what does it lead? As I have already stated, it means not only that we are living on capital but we are proposing to go on living on capital so long as the present methods are followed. I fully admit that when the owner of a business has been unwise enough not to provide for depreciation in the past and to take out all the profits when there were any, and to finance the deficits by borrowing when there were any deficits, trouble must be expected, but this is surely all the greater reason for being strictly scientific and methodical in dealing with future years.

I do ask the Honourable the Finance Member to have the views I have expressed—and more particularly the details contained in my speech on the Railway Budget—examined and reported upon. I am confident that he will come to the conclusion that I am right and surely it is better to realise the realities of the position and not to blind ourselves and assume that there will be profits from the Railways which we are never likely to realise. The latter attitude can only mean that we are throwing on to a future generation the burdens which ought to be borne today.

It is bad enough to believe as I do that a fair value of the Railway assets is some hundreds of crores less than the liabilities in respect of the Railways, but to go on acquiescing year after year and making that position more serious by increasing the amount of the excess of your liabilities over the value of your assets is finance of a most dangerous order.

Monopolies such as the Railways have been have great advantages but, as is usual in life, these advantages are accompanied by difficulties. I think it is important for anyone who is responsible for the control of a public utility monopoly to keep on continuously thinking "What would I do if I had to face competition? What can I do to make the service more useful or more efficient?" This attitude of mind, which can only be impressed on the staff from the top downwards, would often result not only in a great increase in the utility of the concern, but in forestalling some of the unfortunate effects on the revenues of the undertaking when competition comes, as it frequently does.

Many of the improvements which have been made in the Railways of other countries—only when competition arose—could reasonably have been made at an earlier date. It is true that improvements of this kind in the first instance normally involve the expenditure of considerable sums of money and that this aspect of the matter cannot be ignored. All expenditure of this kind merely requires careful examination from the double point of view: Will the cost to those who use the service and the income of those who own the service be so greatly affected as to make the expenditure not worth while? I think the Railway position would have been very much better now than it is had this attitude been adopted in the past. I think the Railway position will be very much better if this attitude is adopted in the future. In all too many instances there seem to be indications that where there is no fear of competition the Railways are not prepared to improve their service, while where there is competition to be met they are willing to do so, and do so.

3 P. M.

[Mr. R. H. Parker.]

We have already supported the Income tax Bill which was passed by this House in the current Session and the Honourable Finance Member may rest assured that we are in favour of further legislation, when he is ready to introduce it, to close as many of the existing loopholes in the law as possible because we believe not only that a substantial increase in the receipts from income-tax will result, but that that increase will represent sums which should be paid if the burden of income-tax is to be equitably and fairly distributed. We are at present examining the report of the Income-Tax Enquiry Committee with a view to being in a position to support or criticise such proposals as may be brought before the Legislature in due course in that connection. I think it is a very able document and a very useful basis for consideration.

I hope that the Honourable the Finance Member will bear in mind any inequities which exist under the present law even though they may not have been specifically dealt with in this report. Only recently a curious incident came under my notice. An assessee was assessed in respect of the financial year 1936-37 to income-tax and super-tax amounting to Rs. 1,80,000 odd. An appeal to the Assistant Commissioner was unsuccessful and payment was made under protest. The Commissioner was asked to state a case to the High Court and in the result he decided to revise under section 33. A refund was then made of no less than Rs. 1,68,000 out of the original sum paid which, as I have already said, was just over Rs. 1,80,000. The assessee asked for interest on this very substantial sum of money and the reply was that while section 66(7) of the Income-tax Act provided for payment of interest where a refund was made as the result of a reference to the High Court, where revision is made by the Commissioner and a refund made as the result there is no provision for payment of interest. This does seem to be a very extraordinary omission. Not only does it seem quite inequitable that, as in the case I am mentioning, an assessee should have to pay interest on borrowed money to meet a mistaken income-tax claim, but there is also the objection that the Income-tax Department have it in their power to make incorrect assessments, obtain the use of the money temporarily, and by revising under section 33, instead of allowing the matter to go to the High Court to avoid having to pay any interest for the money of which they have had the use. I merely give this as an example of matters which I hope the Honourable the Finance Member will put right. There must be many others and he is in a far better position to collate them than anyone else is.

As regards the Defence Budget, I must say that I feel great sympathy for His Excellency the Commander-in-Chief. It is always extremely unsatisfactory for any efficient administrator to feel that he has not at his disposal the funds which he regards as necessary to the maintenance of efficiency. I cannot help thinking that we in India are extremely fortunate; we are one of the few countries in the world who are not at the present time bearing heavy increased taxation to provide for increased armaments and forces. I think we can only attribute the avoidance of such increased taxation to the fact that we belong to the British Commonwealth of Nations. Let Honourable Members consider for one moment what their position would be if—as some parties desire—India were what is called “independent”, that is, outside the British Commonwealth of Nations.

I am not an expert in matters of naval or military defence but it is quite obvious to the most ignorant that the sums which would be necessary to defend the coast of India, were it not for the existence of the British Navy, would be so colossal as to put in the shade many of our present difficulties.

As regards the Honourable Member's proposals for new taxation, I am glad to note that the tax on sugar is not likely to result in the price being unduly high. On the contrary it seems reasonably certain that sugar will still be available at what may fairly be regarded as a low price.

Much as I regret the failure to remove the surcharge on income-tax on this occasion I do not suggest that this ought to be done in the existing circumstances. To do so would merely necessitate the substitution of some other taxation unless we were to have a deficit in the Budget.

I would like to congratulate the Honourable Sir Frank Noyce and Mr. Bewoor on what I must say I feel is an excellent bargain in connection with the new Air Mail Services. If I understand the position rightly, had I been the other party to the bargain I think I would have thought them rather hard, but so far as India itself is concerned, there seems to be every cause for congratulation.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU (United Provinces Northern: Non-Muhammadan): Mr. President, the last three surplus years had created the hope that we had left days of adversity behind and bright prospects before us. The remission of taxation and the stress laid by the Honourable the Finance Member on the increase in the income-tax revenue strengthened that impression. There was, however, no correspondence between the economic life of the country in general and the improved financial position of the Government of India. The Central Budget did not accurately mirror the life of the country at large. I am free, however, to say that in the current year there was a larger movement of goods and there seemed to be greater business activity than in previous years. This had its necessary consequence in the improvement of the railway revenues. It must therefore have come as a surprise to Honourable Members to learn that the current year will close with a deficit of nearly 2 crores, and, what is more disquieting, that the year 1937-38 is expected to disclose a deficit of nearly 3½ crores. It is true that the Honourable the Finance Member speaking last year anticipated that in the year 1937-38 there would be a deficit of nearly 2 crores. The revenue of 1937-38 is therefore down by no more than 1½ crores but the current year was expected to end with a surplus. The real cause of anxiety is the deterioration of the position in the current year, which suggests that the deficit in 1937-38 might continue in future years. And here I should like to support my Honourable friend Mr. Hossain Imam in his criticism of the method adopted by Government with regard to the disposal of the sum available in the revenue reserve fund. Ordinarily speaking, that sum should have been used in order to meet the deficit in the current year, but Government instead of doing that have met that deficit by reducing their cash balances. The cash balances were none too large as they were. After the separation of the provincial balances they will become too small in comparison with the total liabilities of the Government of India. And after the deficit of the current year has been met from them they will be reduced to a still smaller amount. I am afraid that this method must be regarded as a concealment of the true position of our revenues in 1937-38 which is more unsatisfactory than Government have admitted, though the cash balances would be of the same amount whether they were used to meet the deficit of 1936-37 or 1937-38.

Apart from this, Sir, there are other factors which go to show that the real deterioration is much greater than that pointed out by the Honourable the Finance Member in the Budget. He referred, Sir, to the effect on our finances of the separation of Burma from India. We have been told that the deterioration would amount to about 2 crores and 33 lakhs. But this would

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be the result if the payment that would be made by Burma to India were credited to revenue. Now, Burma would pay 94 lakhs this year and a gradually diminishing sum for 20 years to liquidate her pensionary obligations. Burma will discharge in 20 years by these capital payments her liabilities for pensions in course of payment on the 15th April, 1937-38. Obviously this sum cannot be regarded as an addition to revenue. Only such portion of it as is used in the year 1937-38 or thereafter for the payment of pensions can be employed in relief of the revenues but the rest of it must be treated as capital, the interest on which will enable Government to meet its liabilities in future. Then take, Sir, the contribution to be made by Burma in respect of debt and certain other obligations. Well, this contribution amounting to 2 crores and 29 lakhs is made up of two elements, the payment of the interest charges and the repayment of capital. Well, the amount used to pay the interest charges will legitimately form part of the revenue side of our accounts but the amount for the repayment of capital cannot be so used. We have not been given any information which would enable us to divide the contribution that we received from Burma into its constituent elements, but it is nevertheless clear that if, as it ought to be, the whole of the sum were not credited to revenue our deficit would be much greater than even 3½ crores.

The Honourable Finance Member asks us to take consolation in the fact that we have borne burdens that were not foreseen a few years ago without extra taxation. He says to us : " Look at the strain that our revenues have had to bear and then judge of our achievement ". He draws our attention to certain figures. The provinces, taking into account their share of the jute duty and the money that they will receive in accordance with the Niemeyer recommendations will be getting about 6½ crores from the Government of India. Then there is the deterioration of 2½ crores due to the separation of Burma. These figures are pointed out both by the Honourable the Finance Member and the Financial Secretary. I will go further and take into account certain other factors which were left out of consideration by the Honourable the Finance Member. Take, for instance, the loss of the duty on sugar. Now I take the year 1931-32 as the starting point and not 1930-31, as 1930-31 was a very abnormal year. The revenue realised in that year was never realised either before that year or afterwards. I start therefore with the revenue yielded by sugar in 1931-32, which was 8 crores. It is clear that there is here a deterioration of nearly 7½ crores. And then take the remission of taxation in the current year and last year amounting to 3.42 crores. Adding up all these figures we can say that the total additional burdens that the Government of India have had to bear amount to 19½ crores. I may, however, point out in passing that the loss of the income from the sugar duty was not unforeseen. Sir George Schuster stated in his Budget statement for 1932-33 that commencing with the year 1931-32 India must be prepared to lose annually a crore on the sugar revenue. It is true that the revenue went down much more rapidly, but had the process foreseen by Sir George Schuster continued as gradual in its operation as he wished, even then our revenue from sugar would have been practically extinguished by now.

Sir, I have pointed out the strain which the revenues of the Central Government have had to bear. Let us, now, consider the additions to the revenue made during the last few years. Take first, Sir, the excise duty. Now, the excise duty was not thought of when extra taxation was imposed in March-September 1931 and this duty is expected to yield about 3½ crores. Then take, Sir, reduction in interest charges excluding the share of the Railways and the Prov-

incial Governments. I understand that this may at a conservative estimate be put down at 2 crores. There has thus been a betterment in the revenue position of the Government of India by nearly 5½ crores and the total net deterioration comes to about 14 crores. Well, now consider, Sir, the taxation imposed in 1930-31 and 1931-32. The taxation imposed in 1930-31 amounted roughly speaking to 5 crores and that imposed in 1931-32 was expected to yield nearly 29 crores. These 2 items amount to 34 crores. Then we have to take account also of the increased postal charges amounting to ¾ths of a crore. The total additional taxation thus comes to about 34¾ crores. Now, it is true, Sir, that the taxes that were imposed did not yield all the revenue that was expected of them but before congratulating ourselves on the improvement in our revenue position we must in all fairness take account of their existence and magnitude. If we have been able to meet new burdens to the extent of 14 crores after passing taxation measures expected to bring in over 34 crores, I cannot see that we have any occasion to congratulate ourselves. All that we can say is that the taxation measures are beginning to bear fruit, though even as yet the yield from the taxes may not be all that was hoped for from them.

In order to meet the situation as it is, Government propose to increase the excise duty on sugar and the import duty on silver. I shall take the silver duty first. The Honourable the Finance Member, as his Budget speech shows, thinks that the recent imports of silver into India indicate a revival of the hoarding habit. I am not aware that the silver that has come into this country recently has found its way on a large scale into the villages. We must have some evidence on the subject, but it has not been furnished in the slightest degree either by the Honourable the Finance Member or by the Honourable the Finance Secretary. But even if it be true that a large part of the silver has been acquired by the villagers, does it show that it is being hoarded? Look at the large population of this country; look at the social requirements of the people. Consider also the large amount of gold that the country has had to part with in recent times. At least some of it, as Sir George Schuster admitted in one of his budget speeches, was due to the economic distress prevailing in the country. If in the first year of the revival of the export trade the people took advantage of it to provide a little jewellery for their women or to lay by something against future needs, can any one fairly charge them with trying to hoard money? The position this year can be looked at in this way. In the first 9 months of the year, gold of the value of 23¾ crores has been exported, and silver to the tune of 9¾ crores has been imported. It only means that a part of the gold has been used to purchase silver, and the Honourable the Finance Member, in order to discourage this, increases the tax on silver. If it is true that most of the silver that has come recently into this country is to be found in the possession of the villagers, then he is according to his own showing guilty of putting a tax on the savings of the poor. I am afraid therefore that I cannot support the enhancement of the duty on silver.

Now, let us take the sugar excise duty. It is a pity that the Government of India had committed themselves to the proposition that as soon as our finances improved, the cuts made in salaries should be entirely abolished. I wish for my part that the higher salaries had been kept at a reduced level for some time longer. (*An Honourable Member*: "Permanently.") Well, at any rate, till there were more signs of financial prosperity than were evident when the cut was entirely removed. Then, Sir, take the surcharge on income-tax and super-tax, which has been partly removed. If steps had been taken to exempt men with small incomes and to confine it to men with higher incomes, I personally think that such a measure which would have distributed the burden more evenly would have been preferable to a measure of the kind adopted

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by the Government of India. I am in entire sympathy with the position taken up by my Honourable friend Sir Phiroze Sethna when he suggested that the Government of India, if they wanted to take steps to strengthen the sugar industry, ought to have given it some time to put its house in order. This is not an unfair demand. As it is, I am afraid that the action of the Government will be regarded as having been determined by political motives. I know that the country has had, at any rate temporarily, to make a large sacrifice in order to establish the sugar industry. Patriotic sugar producers will certainly be the last to object to shouldering any additional burdens rendered necessary by the loss of the customs revenue from sugar. But both they and we have a right to expect that before any additional burdens are imposed, they are not unduly burdensome and are in accordance with sound canons of taxation. Sir, I do not wish to labour this point further. I will sum up my position by saying that I am not in sympathy with either of the measures suggested by the Honourable the Finance Member.

One will naturally say in such a position, "What is to be done to improve our situation? What is the outlook for the future? What is the real economic position of the country?" The Honourable the Finance Member has made some observations on this subject in his budget speech which are of considerable interest. He thinks that the protective and revenue duties are reducing our income unnecessarily, and he had the support of the Honourable Mr. Parker who asserted that it was the duty of the Finance Member in view of the opinion expressed by him to take his courage in both hands and to reduce the duties. Before I deal with this point, I should like to quote the exact words used by the Honourable the Finance Member. "The height of the protective and possibly of the revenue duties as well", he said, "is bringing about the inevitable diminishing returns and these are operating more rapidly than we had believed possible." This is perfectly true of the protective duties, but they were not imposed for revenue purposes at all, and taking the last 6 or 7 years, the diminution has not been as rapid as one might be led to believe by this statement of the Finance Member. Again, if protection is given to suitable industries, it is obvious that the resulting economic prosperity of the country would repay many times over the temporary loss that might be sustained by Government. The more serious part of his remark, however deals with the revenue duties. Now, what is there to show that our revenue duties are tending to reduce the yield that one might legitimately expect from them? Sir George Schuster considered this position both in his Budget speech for 1933-34 and in that for 1934-35, and in both years he came to the conclusion that there was no case made out for a reduction of the duties. He said in 1933, "We have considered very carefully whether in any case of customs duties a point of so-called diminishing returns has been reached, but I am quite satisfied that there is no class of ordinary imports in regard to which a reduction of the duty would so stimulate the demand as to produce an increase". And referring to the subject in 1931, he said, "A careful scrutiny of the remaining items in the tariff schedule"—(that is, excluding manufactured tobacco and silver)—"has not revealed any other clear case for making a change on the ground that a reduction in the duties would mean an increase of revenue or indeed would not involve a definite waste or loss of revenue". We could not have a more clear pronouncement than that on this subject and the recent trade returns bear out what Sir George Schuster said on both these occasions. Take our export and import statistics starting from the year 1927-28. Both tell the same tale but I will content myself with dealing with the imports only because I take it that the Finance Member in making the remark to which I

have referred was thinking primarily of the import trade. Well, the worst year for imported goods was 1931-32, when their volume on the basis of the prices that prevailed in 1927-28 was only 70·6 of the standard reached in 1927-28. The corresponding figure for 1935-36 is 86·6. There has thus been a continuous and substantial increase in the volume of imports since the time when the duties adversely commented on by the Finance Member and the Honourable Mr. Parker were imposed. Again, the reduction last June of the duty on certain kinds of British cotton goods did not add a pie to the customs revenue. The view of the Honourable Finance Member is thus unsupported by facts.

There is another remark made by the Honourable Finance Member which also deserves attention at the hands of Honourable Members. Referring to the favourable trade balance of India in the current year he said, "It certainly does not look therefore as if the rupee were over-valued; in fact, there is a great deal more to be said for the contrary view". Now, it is true that in the first 9 months of the year the balance amounted to 50 crores. If our position improves at the same rate, you might expect a balance of nearly 67 crores in a full year.

THE HONOURABLE SIR JAMES GRIGG : I should like to tell the Honourable Member that in the 10th month the favourable balance added 10 to the figure of 50. So it looks like speeding up. I mean that it is increasing rather more quickly.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I know that. I will therefore assume that the balance which will increase more rapidly will at the end of the year amount to 75 crores. But is that a figure which need cause the slightest concern to a Finance Member of the Government of India? What was the figure of the trade balance in pre-war years? (*An Honourable Member* : "60".) It was much larger than 60. In the quinquennium just preceding the war the favourable trade balance amounted to 78 crores, and it has to be borne in mind that India was then an importer of the precious metals. In the current year, however, the favourable trade balance takes into account also the export of gold. We are therefore nowhere as compared with the position we occupied in the pre-war years. It is true, however, Sir, that, while the exports have gone up, the imports have declined. But we do not really know what the permanent state of things will be. There is nothing to indicate at present that the imports will continue to go down. The decrease in imports may well be only a passing phenomenon. As our exports go up it is natural to expect that people will receive a larger portion of the payment due to them in the shape of goods. In any case there is nothing here to show that the rupee is in the slightest degree over-valued. We know however that the revival of prosperity in the country depends on the increase of the purchasing power of the people, and one of the most potent ways of doing it would be a reduction in the value of the rupee. And here, Sir, I should like to put a question to the Finance Member. When he said he thought there was a great deal to be said for the view that the rupee was under-valued, what exactly did he mean, to what currencies did he refer? Did he refer to the English currency or did he refer to non-English currencies? So far as non-English currencies are concerned, the Indian currency is linked to them only through the English currency. If then the rupee is under-valued in relation to them, it can only be because the pound also is under-valued in regard to them. As regards the English currency, however, there could be no under-valuation of the rupee because the ratio has been forcibly maintained at the previous level by the British Government. England itself went off the gold standard and managed

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its currency as it thought would suit its economic interests. But it somehow came to the conclusion that the interest of India would be best served if she continued to be in the leading strings of England. There is, Sir, not the slightest evidence to show that the rupee is under-valued; on the contrary, there is a great deal to be said in favour of the view that if the rupee were slightly under-valued, our recovery would be quicker and both our economic and financial position would so improve as to remove the embarrassments from which the Government of India are suffering.

As regards the future, Sir, there has been some increase in prices in the current year, a small but steady increase. It is difficult to say whether the increased business activity which is due to it is genuine or speculative. Business men whom I have had the opportunity of talking to have generally attributed the recent rise to the disturbed political conditions in Europe. One hopes that their prognostications may turn out to be untrue, for no one is interested in showing that the condition of this country has permanently deteriorated. We must however take account of the genuine fear entertained in well informed circles that the increased movement of goods visible during the last 9 or 10 months may prove to be short lived.

Sir, I should like before I sit down to deal with a question in which I have been taking considerable interest for many years. I refer, Sir, to the army. I am free to admit that a great deal of reduction in army expenditure has been carried out during the last 5 or 6 years even after taking account of the contribution of 2 crores made by the British Government and the reduction in the pay of the British soldier. The reduction has been greater than any one of us would have believed possible, say, in 1931-32. The army authorities are therefore entitled to full credit for the efforts made by them to co-operate with the Government of India. But that unfortunately, Sir, does not end our difficulties. The army authorities may have considerably reduced the expenditure of the army, but we have yet to consider whether even the present scale of army expenditure is in consonance with the general standard of life in the country. Now, Sir, in order to judge of the relation the army expenditure bears at present to the revenues of the country, I compiled figures relating to the central and provincial revenues for the year 1935-36. For the central revenues I took the figures relating to Railways, Posts and Telegraphs, Currency and Mint, Interest Charges, and Defence Services net and I found that the revenue of the Government of India amounted to about 82½ crores. As for the provincial revenues, taking Irrigation and Interest net, I found that they amounted to 81½ crores; the total revenues of the Government of India and the Provincial Governments thus came to 164 crores in the year 1935-36. The net Army expenditure in that year—and when I say net I take into account the contribution of 2 crores made by His Majesty's Government—amounted to about 45 crores, that is to say, nearly 27½ per cent. of the total revenues of the country as computed by me. I leave it to Government themselves to consider whether such a figure can be regarded with equanimity at the present time. Had we received no contribution from His Majesty's Government, the percentage would have been in the neighbourhood of 29. But this is not, Sir, the whole of the story. The cost of the re-equipment programme has gone up by nearly 2 crores and His Excellency the Commander-in-Chief has warned us that the present scale of expenditure is insufficient to meet the needs of the Defence Services. I am not unduly alarmed by that fact, for since the days of Lord Rawlinson up to the present time there has not been a single year when the Commander-in-Chief has not said—perhaps out of loyalty to his Department—that when

financial prosperity returned he would ask for a reversion to the old scale of military expenditure. But at the present time even any small addition to our military expenditure would involve a severe strain on our financial situation. We have had some relief—so far as defence expenditure goes and not so far as the whole financial position goes—on account of the separation of Burma. I hope the army authorities will not, simply because the defence expenditure will in future be apparently smaller than it has been hitherto, press for increased expenditure. If any such demand is made, then we, whatever our desire might be to secure the safety of the country, would have no option but to come forward with a determined negative.

Now, Sir, we have to ask ourselves as to what is the relation of the Department, of the Army Department which is costing us so much, to the country as a whole. Is it a national department? Has it created a national army? Has it Indianised the officer ranks? I am afraid, Sir, that the answers to all these questions must be in the negative. My Honourable friend Mr. Parker thought it very fortunate that India was a member of the British Commonwealth of Nations, for it was thereby saved the necessity of spending large sums of money on military preparations. I wish he could convince the United States of America and France and Germany of their incredible folly in remaining outside the British Commonwealth of Nations.

THE HONOURABLE MR. R. H. PARKER : I wish I could.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I have no doubt that he would be prepared to essay many such impossible tasks. But for us ordinary men, it is enough to take account of ordinary sentiments and motives by which men are moved to action. If we do so, we shall see that the other countries which may be spending more than we are doing—a fact which has not been proved by the Honourable Mr. Parker—are paying a price for national freedom. But what are we paying this price for? Are we expected to pay it for national subjection and to be grateful for it? Another factor of a general nature which I should like to bring to the notice of the authorities.....

THE HONOURABLE THE PRESIDENT : I have allowed you 45 minutes already.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I will come to a close, Sir, in two minutes. The Army Department is concerned with important aspects of our national life, but does it consider it its duty when the military budget is considered, either here or at another place, to give us information about the factors affecting our security and our relations with our neighbours? Do we ever have a speech of the kind that, say, a Defence Minister or a Foreign Minister would deliver in the British Parliament? It is true that Government are not responsible to us, but is their moral duty any the less for that reason? Apart from that they have accepted the policy of according Dominion Status to India. Does it not behove them, therefore, to take steps to give us that information which will enable us to acquire the knowledge and experience which will be needed in the administration of the Army Department when it is placed in our hands?

Just one word, Sir, about the size of our Army before I sit down. England is making a contribution of about 2 crores to our defence expenditure. I hope I shall have an opportunity of saying something on this subject a few

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days hence. I will therefore only say for the present that this contribution is wholly inadequate. I for one do not want any financial relief from Great Britain. I care more for the self-respect of India and wish that the European troops were replaced by Indian. If, however, England wishes to do financial justice to this country, leaving out the political question, leaving out the large question of political freedom which is indissolubly associated with this question, it ought to make a much larger contribution than it does at the present time. Judging from the table contained in the Army estimates which compares the cost of Indian and British units, I think taking both effective and non-effective charges we can say without exaggeration that the extra burden due to the maintenance of European troops in this country will be in the neighbourhood of 10 crores. What is a contribution of 2 crores in comparison with the large additional burden that is imposed upon our revenues by the maintenance of 60,000 British troops in this country?

But apart from this, Sir, the Inchcape Committee suggested a way of bringing relief to the revenues. It suggested that when the reserves were up to strength, the peace establishment of an Indian battalion should be kept 20 per cent. below the war strength. Now, Mr. Mackworth Young, who was the Army Secretary in the year 1930, replying to a demand for information on this subject, said that the Army authorities had looked into the matter and had been able to make a reduction of 34 men per regiment. If the recommendation of the Inchcape Committee had been carried out there should have been a reduction of nearly 153 men per regiment. At the time the Inchcape Committee reported, there were only about 8,000 men in the reserves. I understand that their number is about 35,000 now. Thus the actual strength of the reserve is the same as its sanctioned strength. Has not the time come then for giving effect to the recommendation of the Inchcape Committee? And as in accordance with the recent reorganisation our regiments will be organised not on a four-company but a three-company basis, it does not seem that the Inchcape Committee's recommendation will make the primary units too small for efficient military instruction.

Sir, I do not wish to take the time of the House any further. I am grateful to you for the indulgence which you have accorded to me. But allow me to say that if I have dwelt at such length on the Army budget and its relation to the political status of the country, I have done so because of the great importance of the subject at the present time. What is the crux of the situation, Sir, in the provinces? Is it not the seriousness of the position then due to the present hopeless condition of the masses? They have practically nothing at present and they have hardly anything to look forward to in future. If we wish to bring about a better state of things we must be prepared to exercise the most stringent economy, to use if necessary radical measures of reorganisation in order to improve the condition of the rural areas and to make the people feel that they have everything to gain from a stable and ordered Government. And the additional money that will be needed for the expenditure required to improve the level of the life of the masses cannot for the present be met out of additional taxation. As the Army is our largest spending department, one has to ask that department, however difficult the technical experts looking merely to their own side of the case might find it, to draw their belts tighter and, in the interests of the very country which they profess to serve, to leave nothing undone in order that greater security, contentment and well-being might accrue to the country than its armed forces alone can bring to it.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab : Non-Muhammadan) : Sir, I generally endorse the observations which have been made by my Honourable friends, Sir Phiroze Sothna, Mr. Hoosain Imam, Mr. Kunzru and others. I must say, Sir, that this Budget is not only disappointing to the Honourable the Finance Member but is equally disappointing, if not more disappointing, to the general public and particularly to the commercial and industrial community. For some time, Sir, there has been a feeling that the Government's attitude towards industrial development is becoming increasingly lukewarm and its policy of protection, instead of being rigorously pursued, is being directly or indirectly whittled down. The Honourable the Finance Member's speech does nothing to remove this widespread apprehension but on the contrary the entire tenor of the speech seems to indicate a lack of appreciation of the imperative need of development of Indian industries and undue emphasis on purely revenue considerations. I cannot help observing that this concern for budgetary considerations irrespective of wider issues leads him to favour a policy of encouragement of foreign import. I submit with due deference that the whole question should not be regarded as one of merely balancing the Budget but should be considered as an integral part of a national economic policy.

Sir, the Army expenditure is top-heavy. Nowhere in the world is there such a huge standing Army being maintained. Nowhere in the British possessions or the British Dominions is the expenditure on the standing Army kept at such a high level. I cannot therefore understand, Sir, why unlike Dominions India should be burdened with the cost of the Army of occupation. It is time that the policy pursued by the late Commander-in-Chief be pursued further.

(At this stage the Honourable the President vacated the Chair, which was taken by the Honourable Sir David Devadoss.)

Sir, we find that the Defence expenditure, instead of going down, is on the increase, although Burma is going to be separated from India. If we take the actuals of 1936-37, taking into consideration 104 lakhs 4 P. K. saving from Burma and 20 lakhs saving from Aden, the actuals come to 43·61 crores. But the estimated figures for 1937-38 are 44·62 crores. If we take away even the expenditure of 75 lakhs on the reconstruction of Quetta, even then the total estimate comes to 43·87 crores. Sir, this expenditure includes the re-equipment of the Army on modern lines. This equipment was estimated to cost about 12 crores, out of which about 8 crores have already been spent. Sir, I ask His Excellency the Commander-in-Chief whether this pace of equipment, considering the present financial condition of India, cannot be made slow.

Sir, it pained me, and I must say it will pain the public of India, to find that the officers who pass out from the Indian Military Academy are filling the vacancies caused by the Viceroy's Commissioned Officers. That is so and the reply which His Excellency the Commander-in-Chief gave this morning to my question bears me out. I find from the books before me that in the year 1936 there were 4,426 Viceroy's Commissioned Officers.

(At this stage the Honourable the President resumed the Chair.)

In 1937, the reports give the figure at 4,230. That means a reduction of 196 Viceroy's Commissioned Officers. In 1936, the number of Indian Commissioned Officers was 141 and in 1937 this has risen to 202. So, against a decrease in the number of Viceroy's Commissioned Officers of 196, there is an increase of 61 Indian Commissioned Officers. This shows how anti-Indianisation is going on among the Officers in the Indian Army. If I mistake not,

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when the Indian Academy was founded, as far as my information goes, it was never intended by Government to add to the inferiority stigma which they gave to the Indian Commissioned Officers. Now, another inferiority complex, perhaps due to colour, is given to these officers and the public will regard them now as dignified Jemadars, dignified Subedars and dignified Risaldars. It pains me to find this. It is useless for Government to spend about Rs. 10,000 on training of a cadet who is to replace a Jemadar. Is that justified? Was that the intention of the Government of India to train Jemadars and Subedars in the Indian Military Academy? Sir, I must say that the people of India will resent this reversal of the policy of Government as far as the Indianisation of Army Officers is concerned. If I rightly remember, when the question of the abolition of the Viceroy's Commissioned Officers was being considered in this Honourable House some time back, His Excellency Field Marshal Sir Philip Chetwode told us that the example of the British units will be followed and these Subedars and Jemadars will be replaced by Sergeants and Sergeant-Majors. But, Sir, I find that, presumably owing to the reversal of that policy, the result has been that instead of the Indian Military Academy Officers replacing the British Officers, they are replacing what we generally consider subordinate officers, that is, the Viceroy's Commissioned Officers. How can you expect that you will get plenty of young men from higher classes to offer themselves to an institution whose product will bear the inferiority and colour complex? Sir, from the way in which the admissions of Indian officers to the Staff College are made and the way in which Indian Officers who duly qualify themselves for admission to the Staff College are not given admission, we suspect, with due respect to those concerned, that the policy of Indianisation is being retarded so that, when the time comes, it will be said that duly qualified passed Indian officers from the Staff College are not available, and so Staff appointments cannot be given to Indians.

Sir, the question of raising the salaries of the Indian Commissioned Officers is also a matter which should receive favourable consideration from the Government of India. A small deputation of the members of the Central Legislature waited on His Excellency the Commander-in-Chief in Simla. They also represented that one of the reasons why cadets from higher classes do not offer themselves in adequate number for admission to the Dehra Dun Academy was that the salary and prospects and the status were not bright. I presume, Sir, that His Excellency the Commander-in-Chief will throw some light as to what decision they have come to in order to induce right class of people to join the Indian Military Academy in larger numbers. We also expect His Excellency to say whether or not there has been a real reversal of policy of Indianisation by the steps they have now taken, and how he justifies the present pace of Indianisation in the face of the assurances given by Army Members from time to time. Sir, at present there are generally about 11 Jemadars, 8 Subedars and 1 Subedar Major in the Indian regiments; but in the Gurkha regiments their number is 2 Subedar Majors, 16 Subedars and 26 Jemadars. This number is gradually being reduced every year and I think within the next few years this whole batch of the Viceroy's Commissioned Officers will disappear. Alas, what a reward to the so-called martial classes! In view of the present pace of recruitment of Indian Commissioned Officers I would humbly request His Excellency the Commander-in-Chief to explain how he proposes to make up the deficiency.

Sir, I agree with those Members who have said that the cost of the British army of occupation should be met by the British War Office. Everybody

knows that the British soldier costs four times as much to maintain as the Indian sepoy, and a reduction of only 1,917 in the number of British ranks is too small a figure.

I will then come to the question of the high salaries paid to officers in India. Some time back when I was dealing with this question in this very House I gave figures of salaries of officers of various countries of the world, particularly of the Dominions and possessions under British rule. Arguments were advanced that conditions in India and the inconvenience which British officers had to face justified their high salaries. I admit that for deserting their homes for a long period and for the tropical conditions which they have to face here, their salaries must be more than the salary which they would draw in England. But I then compared the Indian salaries with those current in Nigeria. That is also a big British possession which, as far as I know, is a very unhealthy country. The time has come when we cannot afford to pay such high salaries, and the revised scales for officers has not met with the demands of the public. The Lee concessions and other concessions still continue. Solemn promises were made from time to time in the Central Legislature that when times improved' super-tax and surcharges on income would be removed. But they took the first opportunity to get their salary cut restored while they ignored this promise which stands ignored till today. Any increase in taxation once imposed is lowered only with difficulty and reluctance by Government.

So far as mass welfare is concerned, as my Honourable friend Mr. Pantulu said, the grant for rural uplift has disappeared. May I ask whether that disappearance is due to the fact that the Government's aim has been fulfilled? May I ask what proportion of that rural grant went in the shape of salaries and allowances of officers and staff? May I ask what real sanitary improvements were made? My information, which may not be right but which I assume is right, is that efforts were made to raise the standard of living of the masses. The present economic condition of the masses is such that they want their necessities of life met at every point, and that cannot be met by the provision of extra skylights or of a wider street in their homes. If Government really felt mercy and sympathy for the poor man there was no reason why this grant should be discontinued so abruptly at this stage. Therefore those people who suspected that this was merely a countermove to gain some political ends seem justified on their suspicion.

Sir, China is a backward country as compared with present India, but they made their people who had acquired the habit of eating and smoking opium to give up this habit.

THE HONOURABLE THE PRESIDENT : Do you seriously believe that ?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Sir, I seriously believe that because India has suffered a loss of over 9 crores of revenue a year on opium which used to be exported to China. That shows that India has not cared for its own people like China has done. I do not know whether China's efforts to stop the opium habit has been fully or partially successful, but one cannot disbelieve that there has been a distinct improvement as regards minimising the opium habit there. My point is that these 50 lakhs of revenue from opium ought to be stopped and the opium habit in India ought to be discouraged as much as possible. Opium should only be used when it is needed for medicinal purposes. Now, Sir, I come to the increased excise on sugar. I might tell this House that I am not much interested myself personally in the sugar industry. I must say that 2 years

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ago I visited Java and I went to Sorabaya to see the various sugar factories there and it was there that I heard a rumour that the Dutch Government has forced the British Government to agree to discourage the sugar industry in India on account of Dutch Government agreeing to help the British in their political aspirations in the Far East.

THE HONOURABLE THE PRESIDENT : You are a very simple man.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : That was what I heard there. Whether those people who gave me that information were simple or not I do not know.

THE HONOURABLE THE PRESIDENT : No. I say you are a very simple man.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : There they said that Japan by the opening of the Kava canal in Siam and thereby shortening the distance of sea passage by connecting China Sea with the Bay of Bengal aimed that the Singapore Naval Base be rendered not of much use. That in lieu of certain military and naval aid from the Dutch that Britain agreed. I do not say that this is a fact ; that is what the people talked there. But the action which the Government of India has been taking as regards sugar industry makes one suspect that there is some truth in the rumour which I heard in Java. Sir, the Government did decide to pursue a policy of protection. The Tariff Board was appointed to advise Government, but its recommendations were accepted by the Government whenever it suited them. Now we find that there has been a reduction in the import duty on foreign sugar against the recommendation of the Tariff Board. All these things show that the Indian industrialists have to suffer. I admit that in India when any industry is taken up and when people see that that is a thriving industry more people follow it and then the question of overproduction arises. But what steps do the Government propose to take to stop such unhealthy development of industry ? They must do something to save the people from investments in the wrong manner. I think it is the sacred duty of the Government to warn the people in time, when time has come when the country does not require any more of a certain commodity. Their failure to meet the situation also makes one believe that the policy of Government as far as the development of industries is concerned is lukewarm.

Now, Sir, I come to civil aviation. I think personally that we must move with the times and that we should keep ourselves at par with all developments which the civilised countries make. Sir, when the question of allotment of funds to the Civil Aviation Department was being considered at the time when Retrenchment Committees were in existence, and I had had the privilege to serve on one of such committees, I made a proposal for a bigger grant for civil aviation. Sir George Schuster, the then Finance Member, said that it was no use at all to the man at the plough and so the big grants that I demanded were totally unjustified. We see that a few years afterwards the Government of India themselves budgeted over 90 lakhs for civil aviation. We have to see how that big grant is being spent and what part of that is being spent on making India air-minded. We find that the grant to the flying clubs are being reduced. We also find that all that money which is being spent upon civil aviation is being spent for making aerodromes, lighting aerodromes and lighting routes and supplying meteorological and other

facilities. I do not grudge that expenditure, because I consider that that expenditure has been caused by international and political reasons and it will make India defend itself well at the time of war. When these big sums are spent for the sake of war, as a preventive or precautionary measure, a portion of the increased grant ought to be spent to make India air-minded. There ought to be a fleet of aircraft subsidised by the Government of India, Defence Department, as they do in the case of lorries. Those people who hold Pilot A or other better certificates should be included in the reservist list of the military flying corps. A real impetus should thus be given to the people of India to learn flying and to have and to enable them to have some jobs when they qualify themselves. Sir, I had personal experience of the Northern India Flying Club at Lahore. Last year unfortunately we had three complete crashes and the result was that it was with very great difficulty that we could keep the club going with subscriptions raised locally. I do not say that the club is ungrateful for the grant which is being given to it now. But what I say is that in time of such calamity to the clubs, Government must come forward to help them in replacing those crashed planes. That is the only way in which we can make the people of India air-minded.

Sir, it is a matter of regret to find anti-Indianisation going on in the Political Department of the Government of India. If my information is right, some time back there were 3 Indian officers working in the Political Department. But my information now is—and if I am wrong the Government will put me right—that there is not a single Indian officer left in the Political Department. They have been all transferred to the Foreign Department. I should like to know, Sir, why this has happened. Some time back I was told that the Ruling Princes did not like the idea of having Indian Political Officers in the States. But, Sir, when I made inquiries from the then Chancellor of the Princes he contradicted that and His Highness said they would welcome Indians. I would, Sir, therefore request the Government to throw some light on this, as to why Indianisation in the Political Department has disappeared. Similar is the case in the Cypher Bureau.

Then again, the surcharge on coal has not been removed. This also shows how Government is encouraging the development of industries. Coal is the basic material for every industry. When I raised this point in the debate on the Railway Budget, the Honourable President asked me to raise it on the General Budget and that is the reason why I have brought it up now. If the Government are really anxious to advance and develop Indian industries this surcharge on coal should immediately be removed.

Sir, I now come to the point as to what in our opinion should have been the method to meet the deficit. I have before me, Sir, a statement of revenue of the Government of India from various sources. In this, Sir, I see that certain articles are bearing heavier taxation every year and as their imports are on the increase I can deduce that they can easily stand an enhancement of the duty. Now, Sir, take the case of tobacco. Why should not the duty on tobacco be increased? In 1933-34 the revenue from tobacco was 114·82 lakhs. In 1936-37 it rose to 125 lakhs; and in 1937-38 the Government expect a revenue of 140 lakhs. That shows, Sir, that tobacco can bear more duty. Then Sir, we come to aniline dyes. The revenue on aniline dyes in 1933-34 was 23·64 lakhs; and in 1936-37 it rose to 27 lakhs, and the Government are expecting 30 lakhs for 1937-38. Similar, Sir, is the case with non-British fabrics, cotton yarn, and artificial silk. This artificial silk, Sir, which is now proving a wrong thing to buy for the masses because it does not last long, can easily bear a heavier import duty. The revenue from artificial silk in 1933-34 was 68·28 lakhs, while in 1936-37 it rose to 185 lakhs and Govern-

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ment anticipate an income of 220 lakhs this year. The same is the case with cotton hosiery and so many other things. Why duties on such articles have not been increased instead? I do not, Sir, grudge the duty on silver but I do grudge the increase of duty on sugar. Sir, as my Honourable friend, Sir Phiroze Sethna, observed, it was rather unjust to enforce an increase in sugar duty all of a sudden. I should like to ask the Honourable the Finance Member whether this increased duty will apply to sugar which has already been sold and which is lying with the manufacturer on behalf and on account of the purchaser. That is a question, Sir, which I want cleared up. Because, if the Government aim at assessing increased duty on all sugar which is in the godowns of the various sugar factories, irrespective of whether it has been already sold, it will cause great hardship on the manufacturers.

THE HONOURABLE THE PRESIDENT: You have already occupied 45 minutes. There are several other speakers.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: Sir, I will only take a couple of minutes more. The reasons for the fall in imports are (1) protection for sugar, (2) Japanese-Indian competition against British textiles and Japanese dumping, and (3) retention of metals in Europe for armaments as a result of the war scare. Then, Sir, there are (4) sanctions against Italy, (5) rural indebtedness and (6) too high estimates for various articles not fulfilled. Fall in income-tax is due to cut-throat competition in sugar and loss in profits of money-lenders. Unless economic conditions become favourable it is not expected that the imports will materially increase. What are you doing in this direction?

The last point which I want to raise, Sir, is the question of rural credit. The Government have forced the money-lenders, even the honest money-lenders, from doing their business in rural areas. The co-operative banks cannot at present meet even a fraction of the demand for rural credit. And the result is that it is impossible for the poor agriculturists, who can offer no security, to raise money. We know what hardships they are undergoing and I should like the Finance Member to explain how their miserable condition can be improved. I do not mean that the money may be found for them for luxury purposes, but for the sake of sickness and in the case of other necessities of life means of providing credit to the poor agriculturist should be found.

THE HONOURABLE SIR JAMES GRIGG: Sir, I am very grateful for this opportunity of addressing this House on the subject of the Budget proposals and I shall try to deal with the more important points which have been raised during the course of the debate.

I might take the Honourable Mr. Ramadas Pantulu's speech first, not because it was the first in point of time or because it was the most important, but because it contained one statement which I should like to deal with rather roughly. He said—and I took the words down at the time—that I was an Agent of British commerce. It is not a very original remark, of course, because the Party whose insignia he has adopted has repeated it *ad nauseam*, but that does not make it any the more true. Well, Sir, in recent days I have had occasion to study what is Parliamentary and what is not Parliamentary and I have discovered an expression which is the strongest that can be applied to such a statement as that within the terms of Parliamentary usage and this expression is hallowed by practice in the British House of Commons. I have no hesitation whatever in characterising that statement of the Honourable Mr. Ramadas Pantulu as a terminological inexactitude. He can look up a shorter paraphrase if he likes.

The Honourable Mr. Pantulu went on to accuse me of making a propagandist speech. Pretty good that coming from a member of his Party. Otherwise, his speech was a collection of unsupported contradictions of various statements in the Budget speech. I am afraid that in the complete absence of any evidence to support his contradictions, I can only say that I repeat my previous statements and remain convinced of their accuracy. There was another terminological inexactitude in his speech. He suggested that I had inflated the figures of 1936-37 in order to provide the rural grants which were given in the last two years. Well, Sir, if I may say so with respect but not too much respect, that really is a very silly remark because . . .

THE HONOURABLE MR. HOSSAIN IMAM : Is "silly" Parliamentary, Sir ?

THE HONOURABLE SIR JAMES GRIGG : . . . rural grants were provided out of the realised surplus of 1934-35, and that is a fact well known to everybody.

We come to another contention of his and it related to the Budget proposal to increase the sugar excise duty. He said, "Why not manufacture for export?" There is a very simple answer to that, because the Indian manufacturer produces now only at 200 or 300 per cent. above competitive prices which seems to me to provide a conclusive reason for his not being able to manufacture for export.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Will he be helped by the increased excise duty ?

THE HONOURABLE SIR JAMES GRIGG : I will come to that in one second. You mean on export ?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Yes.

THE HONOURABLE SIR JAMES GRIGG : That is another point. By putting an increased excise duty, you are increasing the price of the article and therefore hinder export. That is the argument. Surely, Mr. Ram Saran Das must know that when goods are exported, a draw-back is paid on it, so that the effect of the excise duty on export is absolutely nil.

THE HONOURABLE MR. V. RAMADAS PANTULU : I only wanted Great Britain to purchase the costly sugar of India by preference and not other countries.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : What I meant is that in the case of export, the excise duty should be refunded.

THE HONOURABLE SIR JAMES GRIGG : I should have used the Indian term "refund". The English expression for refund of duties is "draw-back". I mean the same thing.

Mr. Ramadas Pantulu went on, after belabouring my proposals or the Government proposals not very accurately or very successfully, to talk about alternatives. He first of all complained rather petulantly that as he had no responsibility, and could not have any responsibility, for producing alternative proposals, he does not know why he should be called upon to do so. In spite

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of that, he did start producing alternatives. The first one he produced, though it was not quite relevant to the question of the Central Budget, was the abolition of the Permanent Settlement. I do not propose to say anything about that but his Honourable friend from Bihar seemed to say a good deal and that not entirely of an approving character. So, I think we might leave the two Members of the opposition to answer themselves. Then he came to taxing of agricultural income or the inclusion of it in income for purposes of income-tax. He made a great grievance that the Government of India made no attempt to tax agricultural income, but he does not seem to know that agricultural income is a provincial subject, and it is only the provinces that can tax agricultural income and if he is so keen, his friends from Madras will have quite soon a chance of taxing agricultural income and we shall see what they do about it. So much for Mr. Pantulu.

Perhaps I might now come to the speech of the Honourable Sir Phiroze Sethna and here I would like to make a few general remarks about Defence expenditure. I think a general summary of Sir Phiroze Sethna's main contention is that there should be first of all an absolute reduction in the number of British troops and secondly a substitution of a further number of them by Indians. Well, the second question at any rate raises the very big issue of Indianisation, which I gather has been discussed over and over again in this House and may be discussed again shortly. I do not want to dwell on that but I will refer to his proposal for an absolute reduction of the strength of the Army, particularly at the cost of the number of British troops. All I can say is that I hope he will view such a proposition as that with the same easy optimism a year hence. As a matter of fact, in the present circumstances, there is really not the slightest good deluding ourselves into thinking that in the immediate future there is going to be any reduction of defence expenditure. With the world at its present state, it seems to me, giving full weight to all the factors in the case, and with due regard to the desirability, other things being equal, of effecting economy, to be quite a delusion to imagine that we are going to have any reduction in defence expenditure in the years which are immediately before us. In fact, we shall be extremely lucky if we escape—and for my part I do not think we are going to escape—an increase on defence expenditure to meet the absolutely irreducible minimum needs of defence. I am bound to say, though I say it with regret because like every Chancellor of the Exchequer or Finance Minister in the world, I can only regard an increase of defence expenditure with misgiving, because nobody knows where it is going to stop, but I say, with a due sense of responsibility, that we agree much more with Mr. Parker's view than with Sir Phiroze Shethna's. For the rest, I would like to take up one or two arithmetical comparisons that were made to show how heavy was the burden on India of defence expenditure. I do not want for a moment to maintain that the burden of India's defence expenditure is not a heavy one, but I do not think Honourable Members should exaggerate in comparing with other countries. As far as I can make out—it was a little obscure—the Honourable Sir Phiroze Sethna was comparing India's defence expenditure with the United Kingdom expenditure. But I think he was taking England's defence expenditure before the recent heavy increase. Certainly the defence expenditure of the last few years in England has doubled and probably, when we see the complete defence estimates for the coming year, I think they will be found to have trebled. 2½ per cent. of the national income is the figure which he gave. I think we shall find that it is now very much nearer 7½ per cent. If I am doing an injustice in misrepresenting him or the argument he was advancing, I shall certainly

apologise. But that was my understanding of his arguments and figures. Pandit Kunzru was using the same sort of argument, and he compared quite rightly the 45 crores of defence expenditure in India with the complete Central plus Local expenditure and he arrived at a percentage of 27½ per cent. Well, seeing as I say that the United Kingdom defence expenditure has certainly more than doubled and probably trebled, that percentage of 27½ is certainly no more than the percentage in the United Kingdom at the present time. I can put the same facts in another way and compare the proportion of expenditure on the cost of imperial defence that is borne by the various elements of the Empire. I will take the years 1934-35 before the large increases started and the estimates for 1937-38. Taking the total expenditure on imperial defence as 1 rupee, in 1934-35 Great Britain defrayed 11 annas, India 3 and the rest of the Empire 2. In 1937-38 the corresponding figures are, Great Britain 13 annas in the rupee, India 2 and the rest of the Empire 1. So, given the circumstances of the time, I do not think it can be said that India is being hardly treated in the matter.

Then perhaps I can deal with the Honourable Mr. Ram Saran Das's point about the defence reserve fund. He asked why we are spending money on re-equipment. Surely that was precisely the reason why the fund was set up, to undertake a re-equipment programme.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: I said, spend slowly.

THE HONOURABLE SIR JAMES GRIGG: If the Honourable Member will remember, when the contract budget was first set up the defence authorities were guaranteed the money to complete their defence equipment programme in 4 years. It is now 9 years since that contract arrangement was made and it is about 6 years since it was broken. In any case here it is 9 years since the arrangement was started and they have not even got the original cost of the re-equipment programme. So, I do not think the Honourable Member can complain that we are spending the money too quickly. In fact His Excellency will tell you that the money is being spent much too slowly.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: Was I wrong in saying that the Government of India has spent 8 crores of rupees?

THE HONOURABLE SIR JAMES GRIGG: Perhaps I can put it this way. The original programme was estimated to cost 10 crores. Arrangements were made to provide the Army authorities with this 10 crores in a period of 4 years. It is now 9 years and they have been provided with something like 8 crores. In the meanwhile the cost of the re-equipment programme has risen to 12 crores, so that the money is being spent much more slowly than was originally contemplated and I should have thought slowly enough to satisfy even the Honourable Member.

Then, Sir, if I may go on and deal with some other points in Sir Phiroze Sethna's speech—at one part he was complaining that the heavy burden of the surcharges had not been removed entirely and that still 16 2/3 per cent., or one-sixth, of the surcharge remained. In point of fact, two-thirds have been remitted, so that the heavy burden Sir Phiroze Sethna talks about cannot be very noticeable if in referring to it he makes a mistake of 100 per cent. in the amount. I will leave the House to judge how grave is this burden of which the Honourable Member complains.

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Well, Sir, Sir Phiroze Sethna made two complaints against the increase of silver duty. He first complained that it was a tax on capital, and, secondly, that it was not an export duty on gold. Well, as far as the second accusation is concerned, I must admit that that is true. But as regards the first point, that it is a tax on capital, I do not think it is any good giving a dog a bad name and hanging it simply for having that name. There is nothing particularly wrong in principle in a tax on capital provided that it is otherwise unobjectionable, and for my part I am not in the least penitent about increasing a tax on hoarded capital, capital which is not applied to any remunerative purpose. And that is the answer I would give to Pandit Kunzru. Even if this silver is hoarded by the villager and it is a tax on his capital or his savings, I do not feel perturbed about that, if it will induce the villager to put his savings into a more remunerative form. So that on the subject of silver I feel that the criticisms made have left the desirability of the change uninjured.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: What are the banking facilities that you provide the villager with ?

THE HONOURABLE SIR JAMES GRIGG: That is a very large question, but I can mention one thing. He can have post office savings certificates. Still that is a question which does not arise out of the immediate accusation made against me.

Then, Sir, I come to the speech of Mr. Hossain Imam. If I may say so without any fear of being thought to patronise, it was a very thoughtful speech and one which raised some real points of substance. But perhaps, having conceded that degree of praise, I may first deal with one complete mare's nest that he discovered. I think his argument went something like this. Two years ago, when the country was impoverished the national exchequer was overflowing. This year, when the country is obviously more prosperous, the national exchequer is not so prosperous; and therefore, as things work contrariwise, in that sense it must be an anti-national Budget. Well, apart from the far-fetched character of the argument, I think the Honourable Member ignores altogether the fact that in this year's Budget there are over 4 crores extra burden or worsening in connection with Provincial Autonomy and the separation of Burma. So, even if you compare like with like, there is still a surplus on this year's Budget without imposing any new taxation; so that the cause of the worsening is not due to some compensating principle on the part of Providence which takes away from the Central Government as the people become more prosperous. The fact is that the Budget has to bear 4 crores more of extra burden, and though it was hoped we might be able to do that without extra taxation, it has just proved not possible to do it. Then he raised the point about the use of the revenue reserve fund in 1937-38 rather than in 1936-37 and Pandit Kunzru raised the same point. I freely admit that the propriety of it is a point which is arguable. I do not think the Honourable Member can make any point, as he tried to make, that having got the revenue reserve fund you are bound to draw upon it directly a deficit arises. There is full latitude for the Government to draw upon it at any time which seems to them best; that is indubitable. Let us put aside the more strict, straight-laced, form of his argument and say it is not very sound to use this revenue reserve fund in 1937-38 and leave a deficit in 1936-37 uncovered. Well, I can imagine myself, if our positions had been reversed, taking precisely the same point. But the

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implication of that, as the Honourable Member will see, is that the whole gross deficit of 342 lakhs in the current year would have had to be met by increased taxation ; it would have been rather more than double the increased burdens or the increased taxes which this budget seeks to impose. Personally I am not prepared in this year—the peak year of the burdens—to be as stern as that. But what I will present the Honourable Member with is that the existence of that uncovered deficit in 1936-37 is an additional argument for strengthening the sinking fund provision as soon as it reasonably can be done. And the moral is the same in regard to the other perfectly legitimate point he raised about the Burma annuity—I think the Pandit raised that point too. The Burma annuity does include an interest element and a sinking fund element. Part of the sinking fund or part of the capital element is really covered by the provision of 3 crores for the reduction or avoidance of debt. But part of it is a definite new provision for the repayment of the Burma railway debt, and to that extent there is no doubt that the sinking fund element, which I should put somewhere about 30 lakhs, ought to have been added to the general sinking fund ; or, in other words, the Honourable Member can, for what it is worth, say that Government are reducing their sinking fund provision of this year by 30 lakhs. I would say again that that is another reason why we should at the earliest possible opportunity increase the provision for the reduction or avoidance of debt to a figure more commensurate with our total liabilities. I think Pandit Kunzru said that the same argument applied to the Burma payment, the sliding scale payment, for pensions in the course of payment ; but as a matter of fact I am informed—I am not very well acquainted with the matter myself—but I am informed that the argument cuts the other way there, that in point of fact 20 years period which is provided there is a period longer than the average period for which the pensions will continue to be paid, so that the raid, if I may put it rather mathematically, on the sinking fund is a negative one and we will be entitled to take that negative raid in extenuation of the positive raid to which I have just confessed. I hope I have succeeded in making that clear to the Honourable Member. For the rest Mr. Hossain Imam complained that the budget speech was only an auditor's report. I wonder if he had reminded himself of the statutory form of an auditor's report. If I may remind him of it, under section 145 of the Indian Companies Act the auditor is required to say whether such balance sheet exhibits a true and correct view of the state of the company's affairs according to the best of their information. I am quite content to leave it at that. Then, finally, the Honourable Member seemed to me to completely pulverize the rather crude mercantile economics that Mr. Pantulu furnished us with in the matter of the sugar protection, and I am bound to say that I entirely agree with the point which he took. Altogether, as I said at the beginning, I think the House, if I may say so, has reason to be grateful to the Honourable Member for the extremely thoughtful and well reasoned speech, subject of course to the initial mare's nest.

Now, Sir, I shall deal rather briefly with one or two general topics which have been raised during the debate—first of all, the subject of the ratio. I do not propose to keep you here till midnight discoursing on that and I propose to be extremely brief. Mr. Pantulu was complaining that the rupee has not been devalued to 1s. 4d. or even less ; Mr. Parker expressed the hope that Government would not allow the ratio to rise above 1s. 6d.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS : Interests clash.

THE HONOURABLE SIR JAMES GRIGG : I am sorry I do not understand.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: The interests of importers clash with the interests of exporters.

THE HONOURABLE SIR JAMES GRIGG: Of course they do. If everybody's interests in the world were the same, there would be no world trouble, there would be no wars, there would be no taxation, everybody would agree with everybody else. What an extremely dull world it would be! As far as Mr. Parker's argument is concerned, I certainly agree with him that Government ought to do everything conceivable to prevent the ratio rising above 1s. 6d. I entirely agree about that. I would say at the same time that Government have no intention whatever of allowing it to fall below 1s. 4d. Certainly, as I have said before, Government have no intention of taking any part or lot in the recommencement of currency depreciation and tariff wars.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: What about an export tax on gold?

THE HONOURABLE SIR JAMES GRIGG: That can only be intended to be a preliminary step to devaluation; it is devaluation by stages. I do not propose—I have argued it lots of times—to go even one step in that direction if I can help it. One or two speakers raised the subject of revenue duties. Mr. Parker said that it looked very much as if revenue duties having reached the state of diminishing returns and hoped that the Government were studying this question and not losing sight of it. I think Pandit Kunzru also went into this question of revenue duties and he came to the conclusion that there was no declining yield. Well, *prima facie* I should say that the evidence is rather against him now, but the matter is not determined conclusively and will require a good deal of study, and all I can say on that subject at the moment is that it is certainly one which the Government can neither afford to lose sight of nor will they lose sight of. I wish I could feel as confident as Pandit Kunzru does in his assertion that there is no fear of diminishing returns in revenue duties. The lot of the Finance Member would seem easy if he could have, if I may say so again without disrespect, that easy but unofficial confidence.

Perhaps this is a convenient place at which to make one comment on Pandit Kunzru's rather complicated argument about the net amount of extra taxation which had been imposed during the years 1931 onwards. It was an extremely ingenious argument and I have often heard it used in other places, in other countries. But unfortunately it rests on the assumption that the estimated yield of new taxation and the actual yield are the same thing. Of course they are not. And there is no doubt whatever that a good deal, or some shall we say—I do not wish to overstate my case—that some of the new taxation which was imposed in the crisis, definitely resulted not in an increased yield but in a reduced yield. And that is certainly true of the surcharge on the sugar import duty.

Then Mr. Parker asked one or two questions about the report of the Income-tax Inquiry Committee. His specific request was that I should give him an assurance that Government will be free to consider points which are raised by the various bodies which are consulted even if they have not been specifically dealt with in the report. I certainly give him that assurance unconditionally and the particular point he raised, though it is a new one to me, I certainly will have examined.

As regards Mr. Parker's remarks about the Railway capital position, as my friend Sir Guthrie Russell knows with some of what he said I have a good

deal of sympathy and I have been preaching that view for some years. All I can say is that at any rate something has been done to present the railway accounts more truly. I do not pretend—and I do not think Sir Guthrie pretends—that we have done all that we ought to do. But that something has been done is true and certainly Mr. Parker's contentions there are in general accord with what I can possibly call our objects of endeavour.

Well, Sir, I ought to say a little about the subject of the sugar excise, though I am bound to say that very little has been said in the course of this debate which damages our proposals in this matter to any extent,—and that is not very surprising because you cannot make a very great disaster of a reduction of a protection by 1/15th, and I should expect this august assembly to have that sense of proportion and to realise from the start that when 93 or 94 per cent. of the protection is left you cannot make an accusation of a very dreadful character against the Government, and that particularly at a time when Indian produced sugar is being sold at anything from 8 annas to Rs. 1/8 below Java import parity. Lala Ram Saran Das opposed the increase of the duty and at the same time he complained that Government had done nothing—or rather he insisted that Government should do something—to prevent the gullible investor from putting in more money into sugar factories. I think that was the purport of his argument. Well, is not he being a little unfair? Is not increasing the duty precisely the only thing Government can do to discourage the investor from investing in further sugar factories and so to make the problem of sugar over-production worse? And I am confident that either this excise duty will do no harm to anybody but the consumer—and when I say it will do no harm it will even in his case merely take back something of the gain he has got—or that the worst it will do will be to apply a timely remedy to a disease which, if left to run its course any further, will become a very serious one indeed.

Well, Sir, that brings me to the end of my remarks. I am extremely grateful to the House for the way in which they have received the Budget. In this House one gets—or I get—the rare pleasure of having kind things said about the Budget,—in the other House very rarely,—and I am grateful to the Honourable Members who have supported the Budget and supported it so warmly. However, it has not been all jam. Some of the Members attacked it and in particular the Member from Bihar exhorted me to remodel the Budget on popular lines. Well, that really is rather a hopeless task and, if I may be forgiven for an approach to flippancy in this calm and serene air I would like to tell the story of a soldier whom I met during the war who had a saying that there is no bad beer: some beer is better than other. Well, there is no popular Budget. Some are less disliked than others. And from the reception here today I think we can truly claim that on the whole this is one of the less disliked budgets.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: You have not answered my question whether the stocks already sold and held by sugar mills will be liable to the increased excise.

THE HONOURABLE SIR JAMES GRIGG: I am sorry. I understand that the manufacturer has to pay the excise duty on old stocks but in accordance with section 10 of the Tariff Act there are provisions for passing that on to the purchaser notwithstanding anything in the existing contract.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: Sir, I am not going to make a speech, but I would like permission to make just one or two

[His Excellency the Commander-in-Chief.]

remarks. Sir James Grigg has dealt with the main points raised during to-day's debate which appertain to Defence. There are, however, some questions that several Members opposite me have raised which have not been answered. Well, it is getting late and incidentally I have not got the information by me to give them accurate answers now. All these questions—a note of which I have made—can, I think, be categorised under the heading "Indianisation". I understand that the general subject of "Indianisation" is going to be discussed at an early date in the lower House. I will, therefore, undertake that the questions raised to-day will be dealt with then. That is all I have to say.

THE HONOURABLE MR. P. N. SAPRU (United Provinces Southern : Non-Muhammadan): Mr. President, if you will permit me to say so, I was rather disappointed with the speech of the Honourable Member. I was particularly disappointed with his original speech because in that original speech we find no review of present-day tendencies or economic conditions of the country,—no discussion of the principles on which the Government's financial policy is based. It was, if you will allow me to say so, a rather dull and uninteresting profit and loss account. He objects to the words "Auditor's report"—I shall call it a profit and loss account.

Now, Sir, I shall deal with certain criticisms of the speeches on this side by the Honourable the Finance Member. Our position in regard to the Budget has been cleared by the Honourable the Leader of the Opposition, by the Honourable Mr. Ramadas Pantulu, by my esteemed friend the respected head of the Servants of India Society, Pandit Hirday Nath Kunzru, by the Honourable Sir Phiroze Sethna, and the Honourable Mr. Hossain Imam. We objected to two main features in his Budget proposals, namely, the duty on silver and the excise duty on sugar. So far as the duty on silver is concerned, Sir James Grigg has admitted that it will fall on the poor. Sir James Grigg, we know, has got a great love for the poor of this land. He was responsible for the rural uplift grants which have disappeared from this year's budget.

THE HONOURABLE THE PRESIDENT: I am afraid you have misunderstood him. He did not say that it will fall on the poor. He said it will fall on the consumer.

THE HONOURABLE MR. P. N. SAPRU: He said it will fall on the poor consumer. Sir, the Honourable Sir Phiroze Sethna has said that a duty on silver was in the nature of a tax on capital. I should like to ask this question and I think we are entitled to an answer to it. A capital levy is a tax on capital. Is Sir James Grigg prepared to advocate a capital levy? A capital levy would fall on the rich. Now, this is a tax on the savings of the poor. They may be very unwise in holding their savings in the shape of silver, but it is admittedly a tax on the poor. What about the great love for the poor which Sir James Grigg and the Government of India have? Sir, when you admit the criticism that it is a tax on capital, you really give away the case for this increase in silver duty. Therefore, Sir, so far as we on this side are concerned, we remain unconvinced by the arguments of the Honourable the Finance Member in regard to the proposed duty on silver.

Then, Sir, so far as the excise duty on sugar is concerned, I think the Honourable Sir Phiroze Sethna showed that this excise duty on sugar would

hamper the sugar interests. It might also hamper the possibility of our exporting sugar to other countries. It must be remembered that this sugar industry provides work for a large number of our educated unemployed. There are about 2,000 graduates employed in these sugar factories. Many small people have been investing their savings in these sugar factories. It will not only hit the small investor but it will also hit the grower of sugar cane. In my own constituency, there are districts where sugar is grown—Gorakhpur and Basti—and then we have the sugar mills in Cawnpore. It will hit all these people. If there is over-production in sugar, then why don't you have some scheme of compulsory rationalisation? Why have you not tried any compulsory scheme of rationalisation? You want to hit the sugar industry by excise before you have attempted any scheme of rationalisation. Sir, the sugar industry needs help in many directions. I was going through an excellent pamphlet this morning by Mr. Gandhi, who is a Professor, I think, in the Benares Hindu University. He says that there are a number of things which Government can do to help this industry, and these things are not being done by Government. For example, he says :

“ This being so, it becomes the duty of the industrialist and the Government to initiate well-conceived schemes of research to demonstrate to the cultivators the possibility and desirability of improving the quality and of increasing the tonnage of cane with a view to obtain at once a greater return per acre of land and to enable the industry to establish on sound lines.”

Are you doing any of these things? Before we agree to an increase in the excise duty on sugar we are entitled to have an answer to these questions.

I will then just refer to certain aspects of the military expenditure. Burma has now been separated from India. India used to be responsible before the separation of Burma for the defence of Burma. Why is it that with the separation of Burma the military expenditure remains just as it was before? (*An Honourable Member* : “ It has increased.”)

THE HONOURABLE MR. J. C. NIXON (Finance Secretary): May I rise to a point of personal explanation, Sir? Taking into account the 104 lakhs—I think it is—saved on account of the separation of Burma, the military expenditure has not increased.

THE HONOURABLE MR. P. N. SAPRU: Well, Sir, the military expenditure of this year is in the neighbourhood of 45 crores. If I understand the figures correctly, I think there is an increase of about 26 lakhs. How does the Honourable the Finance Secretary say that the military expenditure has not increased?

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: It has. It is 43·87 crores against 43·61 crores of the last year.

THE HONOURABLE MR. P. N. SAPRU: The question that I want to ask is this. Why should the Indian Army continue to defend Burma until it becomes possible for Burma to defend herself? I say that this contribution of 104 lakhs is not enough. Burma ought to make a larger contribution if she wants the Indian Army to be maintained at a level which would enable her to be defended. Burma ought to make a larger contribution than she is making to the Indian Exchequer so far as the military expenditure is concerned. The concrete suggestion that I would put forward is that the cost of at least 5,000 British troops should be transferred to the Burman Exchequer. The expense would be justifiable because Burma has a surplus budget this year.

[Mr. P. N. Saprú.]

of 2 crores. Burma no doubt will bear the cost of the army stationed in Burma and the expenses of the North Eastern Frontier Watch and Ward. But, Sir, it must be remembered that it was with our money that Burma was conquered and therefore I think, now that Burma has been separated and Burma wants to be separated, we should get some contribution from Burma towards our defence expenditure. So far we have been fed on the view that Burmans do not make good soldiers and therefore they cannot be recruited for the army. What is going to happen hereafter? Are Burmans going to be recruited for the army or will our men continue to remain responsible for Burman defence? How long will Indian troops serve in Burma? We know that one of the conditions under which a British soldier is recruited for the Indian army is that we must pay for his recruitment and training expenses in England. We call them capitation charges. The question I ask is this. Will Burma make a contribution towards these capitation charges, and if so, what is going to be the extent of her contribution towards these capitation charges? If she is not going to make any contribution towards these capitation charges, then why not? If the Indian army is just enough for the purpose only of Indian defence, then why should these troops be spared for service in Burma? If the Indian army is meant for the defence of India and Burma is now separated from India, is it not just and right that Burma should also pay something towards the capitation charges? Sir, the Indian tax-payer, even though he has no direct control over army affairs, is entitled to an answer on these vital questions from the Finance Secretary and the Honourable Finance Member, who in their speeches have thrown no light on these questions. So far as defence expenditure is concerned, the Honourable Sir James Grigg pointed out that with the increase in armaments British defence expenditure will now be in the neighbourhood of $7\frac{1}{2}$ per cent. of the national revenues of Great Britain. Great Britain is an exceedingly rich country, but Sir James Grigg will recognize that there is a difference between $7\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent. I am quite prepared to have the defence expenditure of this country fixed at $7\frac{1}{2}$ per cent. We shall accept the figure of $7\frac{1}{2}$ per cent. as a just figure for defence expenditure. Is the Honourable Finance Member prepared to accept that figure as a just figure? Then, what is the use of saying that there is going to be an increase in the defence expenditure in Great Britain? Defence expenditure there is $7\frac{1}{2}$ per cent. of the Britisher's annual income of 100 pounds; our annual income is only about 80 rupees, or 6 pounds, and $27\frac{1}{2}$ per cent. of this annual income—I am sorry, Sir Phiroze Sethna has corrected my figures. I have always been bad at figures. But it strikes me that there is no comparison between the capacity of Great Britain to bear the burden of defence expenditure and the capacity of India for defence expenditure. Defence expenditure we think can be reduced if the British Government will only follow a policy of trust, if it will Indianize the officer ranks of the army, if it will throw open the army to all classes of the people and build up a second line of reserve, if it will reduce the British troops in this country. I think it is possible for Britain to reduce defence expenditure in India. We are vitally interested in the development of social services. You have given us this vast electorate, and this vast electorate will expect things to be done. Democracy can only function successfully in communities which are in a position to give to their citizens the social services they need. Will our provinces be able to give their citizens those social services? Please look at the question of Indian defence expenditure from this point of view. Help the provinces which are about to start on provincial autonomy at this stage of their development. Do not look at this question only from the point of view of British imperialism. Look at it also from the point of view of the Indian tax-payer.

Then, Sir, there is another consideration that we should like you to remember and that is this. We are not responsible for the mess that you find yourself in Europe. You have to thank the Treaty of Versailles, and Clemenceau and Lloyd George, and all your big statesmen for the mess in which Europe finds herself today. All this Naziism and Communism and all this armament race in Europe is directly traceable to the unjust Treaty of Versailles. If you control our foreign policy, why should you blame us if we do not approach this question of defence expenditure from your angle? If we were responsible for our foreign policy, possibly we might have been able to evolve a foreign policy which may have enabled us to do with lesser troops. You have been responsible for our foreign policy and it is foreign policy which determines military policy. Therefore, so far as the Indian politician is concerned, he can only look at this question from the point of view of the Indian tax-payer and from the point of view of the Indian peasant. He cannot look at this question from the point of view of British imperial interests. Therefore, Sir, we must press for a reduction of military expenditure. If you want to keep British troops in India, then pay for those troops. But so far as we are concerned, we continue to be of the opinion that our defence expenditure is too high and ought to be reduced, international situation or no international situation.

Sir, these are all the remarks that I have got to offer at this late hour on the Budget.

THE HONOURABLE SARDAR BUTA SINGH (Punjab : Sikh) : I have listened to the Financial Statement with anxious care. I wish I could join the applause which it has received from some quarters. Its lucid flow in its limpid clarity has laid bare the financial policy of Government of India. It seems to have no concern with the development of resources, from which revenue can be drawn. It has however shown, that without any pretence, it is ready to draw on these meagre resources, even at the risk of draining them dry.

The Honourable the Finance Member dwelt with some satisfaction on the improvement of prices of agricultural produce. May I enquire what steps has the Government taken in helping this improvement and what steps they are going to take to help further improvement? The Honourable the Finance Member regarded as a disquieting factor "the restriction of Rural Credit caused by indebtedness Bill". Can the Honourable the Finance Member mention the steps which Government of India are going to take to revive Rural Credit?

Now, what has the new budget brought us? There is not the slightest indication that drain of gold is to cease and the savings of the poor are to acquire any stable value. No, on the other hand silver is to be taxed. Why? Because people are beginning to hoard it. Therefore the hoarding of the people must be underwritten by raising the duty from 2 annas to 3 annas an ounce on silver? Why could not an export duty on gold provide enough revenue to balance the Budget, so that India could have retained some of this precious metal.

Take again sugar. It is the one industry which the Government of India can easily claim to have helped in developing; but its rapid development seems to have, for some unaccountable reason, caused great deal of disquiet. Its benefits are ignored, the gains of revenue which this industry has contributed are not revealed.

[Sardar Buta Singh.]

In any other country Government would have considered the development of this industry as one of its greatest achievements and taken up and developed other industries in a similar manner.

In answer to my question, I have been informed that it provided employment to 71,093 workers. The number of people in the growing of 1 million acre of sugar cane and bullock carts employed to carry the cane can be easily imagined, as I have failed to obtain exact figures. It has put in the pockets of the growers Rs. 33,98,16,000. It has given an additional customs revenue by conferring purchasing power on hundreds of thousands of cane growers. The Railways have carried a fair part of 51,30,00,352 tons of cane which the mills have crashed and therefore saved the Railways from further loss. The industry has directly contributed—

Rs. 1,58,51,000	Excise duty.
Rs. 1,58,30,000	Freight on sugar.
Rs. 30,00,000	Income-tax.
<u>Rs. 3,46,81,000</u>	Total.

This is one of those industries in which our agricultural population is directly concerned, and yet our Finance Member could find no other source to balance his budget. He talks lightly of closing down of inefficient factories and reduction of area under cane. Factories are paying annas 0-4-3 a maund for cane and a few even less than that. Will he ask the sugar technologist what it costs to grow sugar cane? The figures of costs are available in Government sugar farms.

The Finance Member has shown that he is only interested in the collection of revenue, and is not interested in considering and improving sources from which revenue is drawn.

I wish to say just a word on our defence. Taking into consideration the rapid increase in armament, India does not seem to be taking any special measures. A large defence programme may have stimulated both the developments of heavy industry and trade. There can be no question that India needs a very large defence force.

I do not wish to dwell on these matters further. The country has great hopes in our Viceroy, who has direct knowledge and who we hope will now be able to frame a programme and policy, aiming at prosperity, that our budget can balance.

THE HONOURABLE MR. V. V. KALIKAR (Central Provinces : General) : Sir, I divide the Honourable the Finance Member's speech into two parts. The first part which we got in the printed form was disappointing, but the second part which we heard today is most disappointing. I submit, Sir, that in the second part of his speech he has propounded his pet theories of rupee exchange and free trade, but I was waiting to hear some remarks from him about the curtailment in expenditure as he wants our support for proposals of fresh taxation. We thought he would try his utmost to curtail expenditure in the various Departments of the Government of India. Sir, Honourable Members on this side have made suggestions, constructive suggestions, but those suggestions have not been taken into consideration by the Government. I think the Honourable the Finance Member cannot charge us for making suggestions in a light hearted manner. I am very glad to listen from him this evening that he appreciates to a very great extent the attitude of this House. If he really appreciates the attitude of this House towards his proposals, I want to ask him a straight question as to how far he has appreciated our suggestions and how far he has been able to bring them into practice. If he wants our support for fresh taxation, we as representatives of the people are entitled to ask him

as to what he has done to balance his budget in the matter of curtailment of expenditure of the various departments of the Government of India. Sir, this side of the House has made various suggestions about curtailment of expenditure in the Defence Department of the Government of India. We on this side of the House made proposals to the Government that at least a half portion of the British troops should be replaced by Indian troops. No, they would not do so, because they do not trust Indians. We ask them to Indianise the officer ranks and some of us,—at least many of us on this side,—are of the view that if the officer ranks are Indianised there will be some curtailment in the expenditure as many of us believe that the youths of India are desirous of serving India at a lower cost than India spends for importing European officers from Great Britain. We are told that this is a very big question and today we were told that that question will be discussed in the other House after a few days. My Honourable friend Lala Ram Saran Das put several questions in this connection and the answers which he received today clearly show that instead of accelerating the pace of Indianisation in the defence services, Indianisation is being deliberately retarded. I could have understood the position of the Finance Member if he had stated frankly that he cannot do anything in the matter, that he has no power to curtail the expenditure of the Defence Department as he has to follow the dictate of the Whitehall. I could have understood that. But, Sir, we charge him with not taking into consideration the suggestions made by this part of the House and with not having tried his level best to reduce the expenditure before coming to us with fresh taxation proposals. Sir, we were told in the first part of his speech that revenue has been reduced to an amount of 376 lakhs on account of changes in the constitution. That means that the constitutional changes are responsible for reducing the Central Revenues to the extent of 376 lakhs. Now, Sir, my straight question to the Honourable the Finance Member is, who told him to impose this constitution on this country? The House knows that this constitution was imposed on this country in the teeth of almost universal opposition. Practically all parties in India opposed this constitution and in spite of that this constitution is being forced on India. Now, Sir, in order to force this constitution, the tax-payer has to pay; not only has he to suffer the burden of the present taxation, but in one form or another he will have to pay more taxation and he will have to thank the Government of India and the British authorities for imposing this taxation on him and for screwing out more money from him. Sir, I am not one of those who say that there should be no taxation; there will be very few people who will say that there should be no taxation. I submit that you can tax people, but tax to the limit of bearing. You have already taxed people to a limit that it is not possible to bear any further burden of taxation. One may honestly disagree on the question of currency and exchange; you might have your own theory about the export of gold, you might have your own theories about the rupee exchange, but to a layman like me it appears that on account of these taxation measures, on account of your turning a deaf ear to the constructive suggestions made by people who according to you do not hold extreme views, you have let loose extreme forces of India.

Today we have heard the voice about abolishing the permanent system of Bengal. Tomorrow, Sir, you will hear the voice of Communists here in this House and I am afraid I will have to hold the Government of India responsible for creating discontent in this country, and encouraging the Communists to come into power. I therefore submit, Sir, that it is the duty of the Government to look to the interests of the masses, the peasants, and to see that the purchasing power of the masses is increased. You have not done anything in the matter as is clearly evidenced from the fact that there is a decrease

[Mr. V. V. Kalikar.]

in the customs duties. If, Sir, that is the position, I am afraid Government will be the cause of creating more discontent in the country by means of measures like these. Sir, I do not wish to dilate on these taxation measures at this stage but I submit that these measures will not in any way do good to the consumers. My friend the Honourable the Finance Member may disagree with me but I submit that the price which a consumer will have to pay under the increased excise duty will not be less but will be more, and therefore I am not in a position to understand the contention of the Finance Member that this increase in the excise duty will do some good to the consumer.

Sir, I have nothing to say further except that the Government of India or Whitehall, or whoever it may be, is not running the administration of India in the interests of India as such and I therefore submit, Sir, that it is high time that they realised their position.

THE HONOURABLE MR. J. C. NIXON (Finance Secretary): Sir, it is getting late and I do not think the occasion calls for any oratory from me, even if I were capable of it. But I do think it is only fair to the House that I should offer a few words of explanation in regard to certain points which have arisen in the speeches which have been made since Sir James Grigg left the House.

And first, I want to correct a misapprehension in the mind of my Honourable friend Mr. Sapru, and also in the mind of this House if it happen generally to exist there, in regard to the figures for Defence expenditure. The figures for 1936-37 are 44 crores 85 lakhs, excluding Quetta. The figures for 1937-38, the year ahead, are 43 crores 87 lakhs, and not a figure bigger than that of the previous year. If I add on to these the figures for Quetta, we get a total of 45 crores 48 lakhs for 1936-37, and of 44 crores 62 lakhs for 1937-38,—that is to say, again a smaller figure. There is one other point I would like to make clear for the benefit of the Honourable Mr. Sapru and that is that Burma will of course be paying her share of the capitation charges on account of the European troops which she employs.

In regard to some of the remarks which he made on the subject of silver, I would like to explain to him and to the House the sense in which one may look upon the extra import duty on silver as a tax on capital. He, I think, described it as a tax on capital and also as a tax on the poor. I should be inclined to describe it as a tax on the future capital of the poor and not on their present capital. And I would also like to point out that increasing the internal price of silver is in a way giving a subsidy in regard to the capital already accumulated in this country in the form of silver.

There is only one other matter I wish to refer to, and that is in regard to some of the remarks of my Honourable friend Mr. Kalikar who asked Government what they had done on the expenditure side of the Budget to meet a difficult budget situation. It will not be news to the House because I made the statement myself a few days ago that the expenditure side of the Budget for 1937-38 as compared with the corresponding figure for the previous year is 34 lakhs less. I would also point out, as I pointed out in that speech, that under certain heads of the military budget the expenditure provided for 1937-38 is 40 lakhs less than the expenditure for the previous year. I do not want to say anything more, Sir, but I would like to add my tribute to the gratitude expressed by the Honourable Sir James Grigg for what after all I must consider has been a not unfavourable reception of the Budget proposals in this House.

The Council then adjourned till Eleven of the Clock on Friday, the 5th March, 1937.