

*Friday,
1st March, 1918*

ABSTRACT OF THE PROCEEDINGS
OF THE
Council of the Governor General of India,
LAWS AND REGULATIONS

Vol. LVI

April 1917 - March 1918

ABSTRACT OF PROCEEDINGS
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GOVERNMENT OF INDIA.
LEGISLATIVE DEPARTMENT.

PROCEEDINGS OF THE INDIAN LEGISLATIVE COUNCIL ASSEMBLED UNDER
THE PROVISIONS OF THE GOVERNMENT OF INDIA ACT, 1915.
(5 & 6 Geo. V, Ch. 61.)

The Council met at the Council Chamber, Imperial Secretariat, Delhi, on
Friday, the 1st March, 1918.

PRESENT :

His Excellency BARON CHELMSFORD, P.O., G.M.S.I., G.M.I.E., G.C.M.G., Viceroy
and Governor General, *presiding*, and 56 Members, of whom 49 were
Additional Members.

QUESTIONS AND ANSWERS.

The Hon'ble Mr. Srinivasa Sastri asked :—

1. "(a) Is a special architect from England employed on the Delhi works? Public Works Department Officers employed on the Delhi Works.
(b) Do Government propose to consider whether it is possible to reduce the number of superior officers of the Public Works Department employed on such works?"

The Hon'ble Sir Claude Hill replied :—

"(a) The answer is in the affirmative.

(b) On the 30th June 1914 the Delhi Staff of Engineers and Architects consisted of—

21 Officers of the permanent and quasi-permanent staff of the Public Works Department, one of whom was on leave.

15 Officers on temporary agreement, or a total of 36.

On the 1st January 1918 the staff consisted of—

10 Officers of the permanent or quasi-permanent staff of the Public Works Department.

11 Officers on temporary agreement, or a total of 21.

Government regret that they do not see their way to any further reduction of the staff."

The Hon'ble Mr. Srinivasa Sastri asked :—

2. "(a) Is it a fact that the cadre of superior officers in the Public Works Department provides for a reserve of officers for special and temporary works? Deputation Allowance to superior Officers of the Public Works Department.
And that, when in charge of such works, there is not usually any increase in their emoluments in the shape of deputation and other allowances?"

(b) Is it a fact that superior officers employed in the works at Delhi are in receipt of a deputation allowance in addition to their salaries, while their colleagues of the United Provinces and the Punjab Departments, who are also working in Delhi, do not draw such an allowance?"

(c) If so, what is the reason for this differentiation?"

[*Sir Claude Hill* ; *Mr. Srinivasa Sastri* ; *Sir C. Sankaran Nair* ; *Sardar Bahadur Sardar Sundar Singh Majithia* ; *Sir William Meyer* ; *Sir Gangadhar Chitnavis*.] [1ST MARCH, 1918.]

The Hon'ble Sir Claude Hill replied :—

" (a) The reply to both questions is in the affirmative.

(b) There is no sanctioned cadre of engineers for the Delhi Province, and the engineering staff has hence been drawn from other Provinces. With the exception of the Chief Engineer, these officers receive a deputation allowance in addition to their ordinary pay. The officers of the Government of the Punjab stationed at Delhi, but not engaged on work connected with the New Capital, do not receive a similar concession. There are no officers belonging to the United Provinces stationed in Delhi.

(c) The question whether a deputation allowance should or should not be granted to officers engaged on the construction of the New Capital was very carefully considered by Lord Hardinge's Government in 1914. It was then recognized that sound arguments might be adduced against the grant of a concession which had not been given to members of the general administrative staff deputed to Delhi; but after careful deliberation it was thought that the case of men performing technical work could be differentiated from that of men employed on general administrative duties. The grant of a deputation allowance in the case of the former may be held to be justified on the grounds of the vast importance of the work on which they are engaged, involving the employment only of selected men, of the high pressure at which they have had to work, and of the expense and inconvenience, over a prolonged period, of the circumstances in which their work has to be transacted."

The Hon'ble Mr. Srinivasa Sastri asked :—

Government of India
Circular on Educational Services.

3. " Will Government be pleased to lay on the table the replies received from Local Governments to their recent Circular on the Educational Services ? "

The Hon'ble Sir C. Sankaran Nair replied :—

" A copy of the * replies received up to date is laid on the table. Replies have not yet been received from the United Provinces, Central Provinces, Bengal, and Madras."

The Hon'ble Sardar Bahadur Sardar Sundar Singh Majithia asked :—

Furlough Pay of Indian Civil Service Officers.

4. " (a) Is it a fact—

(i) that the maximum furlough pay of an officer of the Indian Civil Service who takes leave in India is limited to Rs. 833½ a month, whereas it is £1,000 a year if taken out of India;

(ii) that when this limit was fixed the rupee was equal to 2 shillings and that Rs. 833½ a month was equivalent to £1,000 a year; and

(iii) that according to the present rate of exchange Rs. 833½ a month is not equivalent to £1,000 a year ?

(b) If the reply to (a) is in the affirmative, do Government propose to consider the advisability of increasing, during the period of the war, the furlough pay in India of Indian Civil Service officers and other Government servants similarly affected, so as to make it equivalent to furlough pay out of India according to the present rate of exchange ? "

The Hon'ble Sir William Meyer replied :—

" (a), (i), (ii) and (iii). The answer is in the affirmative.

(b) The Public Services Commission have made certain suggestions in regard to the maximum limits of furlough allowances payable in India, which will be considered in due course. The Government of India do not propose to take up independently, and in advance of such consideration, the matter to which the Hon'ble Member's question refers."

The Hon'ble Sir Gangadhar Chitnavis asked :—

Application of the provisions of the Transfer of Property Act to the Central Provinces.

5. " Do Government propose to consider the desirability of extending to the Central Provinces the Transfer of Property (Validating) Act, 1917, under section 1 (2) thereof ? "

The Hon'ble Sir William Vincent replied:—

“The Government of India do not propose to consider the question unless and until they are moved to do so by the Local Administration.”

FINANCIAL STATEMENT FOR 1918-19.

Introductory.

The Hon'ble Sir William Meyer:—“MY LORD, I rise to present the Financial Statement for 1918-19, and as usual there will be no debate to-day. As regards subsequent discussion we are this year, as Your Excellency has already informed the Council at the opening of the session, introducing a modification in previous procedure which will, I think, be appreciated. We propose, that is, before dealing with particular portions of the estimates to have a general debate on the Financial Statement as a whole, which will enable Members to discuss and criticise to more effect than in the debate that has hitherto taken place on the final Budget, and will give greater reality to subsequent Resolutions which are admissible with reference to loan or taxation proposals and grants to Local Governments, or in the later compartment stage. This discussion will commence on the 8th March and we shall subsequently proceed to the stages at which specific Resolutions will be admissible. 11-11 A. M.

“The Budget in its final form, with such alterations in the Financial Statement as may be required by later information or suggested by the discussions in Council, will be presented on the 22nd March. After that there will be no further discussion, the lifeless Budget debate of previous years being superseded by the general discussion on the Financial Statement above referred to, which, as I have said, will enable criticisms to be put forward at a time when our proposals are in a less rigid state.

“2. We must again, unfortunately, assume that the war will continue throughout the coming year. That means a continuance, in probably aggravated form, of some of the special problems which I shall presently have to describe to the Council; and as I have said on previous occasions the constantly changing circumstances of the war materially add to our difficulties in estimating. We must go cautiously, and when the results turn out better than we anticipated, it is a matter for congratulation and not for criticism.

“3. The general situation I have now to describe is in many ways similar to that outlined in my speech last year. The revenue position is again excellent. Our Railway receipts have once more broken the record, and far exceeded the figure estimated in the current year's Budget. The result is that we are able to face with equanimity a considerable increase in military charges. Our financial embarrassments, as I shall presently show, are mainly due to ways and means questions. We have had to incur here on behalf of His Majesty's Government constantly increasing expenditure which is repaid to the Secretary of State at home. Simultaneously there is serious and growing demand on our resources to finance the shipment of materials required for the prosecution of the war, and of the food-stuffs which the Allies and many portions of the Empire are drawing from India. The account which I shall give later on of the calls which we have had to meet will be a sufficient indication of the anxieties which the year now coming to a close has brought with it. To meet these demands we have had to ask the trading and financial community to submit to restrictions on their operations, and to share to some extent in the general financial burden. I fully recognise and acknowledge the spirit of co-operation with which these restrictions have been accepted.

“But I may quite legitimately claim that we on our part have at all times taken our full share in responding to the calls in question. We have been materially assisted in this endeavour to meet our responsibilities by the continued expansion in our currency note circulation, by the gratifying results which have been achieved by the War Loan, by the substantial success of our issue of post office cash certificates, and, latterly, by the material addition to our resources which we have received through the sales of Treasury Bills.

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"4. Our satisfactory revenue position is largely due to favourable agricultural conditions. The south-west monsoon of the current year was exceptionally bountiful and prolonged, and such damage as has been sustained by crops, as regards cotton for instance in some provinces, has been due not to deficiency of rainfall but to excess. The recent winter rains have been defective in the north and centre of India, but, speaking generally, the copious south-west monsoon has rendered this deficiency far less serious than would otherwise have been the case. I may add that the area under wheat, which shows an increase of 3 per cent. over the area finally reported last year, is the highest on record.

"5. Trade conditions have on the whole been very satisfactory, in spite of the shackles placed upon them by difficulties in respect of railway transport and ocean and coasting freight, and the restrictions which military and political considerations have required us to impose on a variety of imports and exports. The total volume of the private sea-borne trade in 1916-17 was much the same as in 1915-16, though, as a consequence of the rise in prices, the recorded value shows an excess of about £40 million, of which one-third occurred under imports and two-thirds under exports. The excess of exports over imports reached the record figure of £54 million as against £40 million in 1915-16. The financing of this large excess at a time when the ordinary adjusting method of imports of specie on private account is precluded has been, and remains, one of the principal problems which we and the commercial community have had to face.

"6. The current year, so far as this can be gauged from the figures of the first nine months, shows little variation from its predecessor. The exports and imports of merchandise show a balance of £38 million in favour of India—reduced to £24 million by private imports of gold, which, however, as I shall shortly explain, have been acquired by Government. Practically the whole of these gold imports have come to us from Japan and America, in liquidation of payments due from these countries for purchases of our products which they have not been able to adjust through exports of merchandise to India.

"Speaking roughly, of £108 million of exports in the first nine months of this year—grain, pulse and flour represent £27 million; raw and manufactured cotton £25 million; raw and manufactured jute £21 million; and tea and tanned hides between them £10 million. Over half our imports represent yarns and cotton goods, and sugar.

"The available results of this year's trade operations have thus disproved the gloomy prophecies made in some quarters as to the prejudicial effect on trade of the restrictions which, for the reasons explained in my speech last year, we found ourselves compelled, in view of the larger interests involved, to impose on the Secretary of State's Council drawings. Similarly, there is nothing in the trade statistics to support analogous apprehensions that the raising of exchange in August last would re-act on our export trade. As I have said on previous occasions, these factors are of minor importance compared with the difficulties of obtaining freight, and cannot affect the demand for our produce and manufactures so long as war conditions secure these against the competition which India would ordinarily meet with in the world's markets.

Revised Estimate for 1917-18. Current Revenue and Expenditure.

"7. The general position is brought out in the following table, which compares the current year's Budget and the Revised Estimate now put forward:—

[In millions of pounds.]

	Budget, 1917-18.			Revised, 1917-18.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue	66·420	32·451	98·871	76·677	33·724	110·401
Expenditure	66·234	32·549	98·833	70·852	31·468	102·320
Surplus (+) or deficit (-).	+·186	-·098	+·088	+5·825	+2·256	+8·081

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[*Sir William Meyer.*]*Revenue and Expenditure—Imperial.*

"8. As regards Imperial transactions, it will be observed that we are over £10 million better under revenue, while our expenditure has increased by about £4½ million, leading as a result to a surplus of £5·8 million against £136,000 estimated in the Budget.

"9. Nearly half of the total increase in Revenue is due to *Railways*, which have once more broken the record in respect of receipts, in spite of the hampering of our sea-borne trade by scarcity of freight and other war restrictions, difficulties in respect of coal, continued deterioration (owing to lack of renewal facilities) of permanent-way and rolling-stock, and the pulling up of some lines to provide railway material for Mesopotamia. The following table compares the results as anticipated in the Budget with those now forecasted, and brings in for purposes of comparison the actuals for 1916-17 :—

[In millions of pounds.]

	1916-17.	Budget Estimate, 1917-18.	Revised Estimate, 1917-18.
Gross receipts	41·8	41·3*	45·5
Working expenses, including payments of surplus profits to Railway Companies	20·7	21·7	21·7
Net receipts	21·1	19·6*	23·8
Add—Receipts from Subsidised Companies and miscellaneous receipts in England.	0·2	0·1	0·2
Total receipts	21·3	19·7*	24·0
Deduct—Interest charges and some miscellaneous expenditure .	13·8	14·1	13·9
Net profit on Railway	7·5	5·6*	10·1

"In framing the current year's Budget we allowed for a slight decrease under gross receipts as compared with the, at that time, record figures of 1916-17, and added to the working expenses in order to cope, as far as the circumstances of the war permitted us, with the demands under renewals caused by the heavy work imposed on our lines and rolling-stock. The very favourable agricultural conditions which India has enjoyed have more than counterbalanced the *prima facie* unfavourable factors referred to above, with the result that we have a large expansion in gross receipts; and as regards net profits, an excess over the Budget of £4·5 million.

"10. We have also a considerable increase under gain by *Exchange*, which is mainly due to the fact that in August last the Secretary of State raised his rates for Council Bills to 1s. 5d. per rupee in the case of immediate telegraphic transfers, and 1s. 4½d. in the case of other Council drafts. Before this, too, the figures had been 1s. 4½d. and 1s. 4¼d. respectively, i.e., in excess of the normal 1s. 4d. we take for adjusting our rupee transactions in sterling.

"On the other hand we have sustained actual loss on some of our rupee coinage by reason of high silver prices, and it has been decided to take this loss against our exchange gain and not to debit it to the Gold Standard Reserve, which was not intended to deal with a situation in which the bullion value of the rupee exceeded its value on coinage: allowing for this our total net gain under this head amounts to £1 million.

"11. Under *Salt* we have an increase of nearly £1½ million,† due to large advance payments in Northern India to secure priority of issue from the stocks there. In November last these indents had so accumulated that it was estimated that it would

*These figures are less than those taken in the Budget by £500,000, the sum estimated as the proceeds of the small surcharge we levied this year on railway goods traffic. This surcharge was subsequently treated as a tax, and the proceeds brought to account under Head XXV—Miscellaneous. Consequently, for purposes of comparison, it is omitted here.

† I give round figures through out.

take more than a year to clear them off, and accordingly the receipt of further indents was stopped, a measure which will be reflected in a reduction of revenue in 1918-19.

"12. Under *Customs* we have an increase of over £1·7 million, due mainly to higher prices which affect our *ad valorem* duties. The increase is most marked under cotton piece-goods (£810,000), while tobacco, silver bullion, sugar, articles of food and drink and miscellaneous manufactured articles are also appreciably better. We have likewise increases of £150,000 under excise duty on cotton manufactures, and £120,000 under the export duty on rice.

"13. Other heads of revenue which show material increase are :—

(1) *Posts and Telegraphs*.—£150,000, owing to favourable agricultural and trade conditions.

(2) *Mint*.—£390,000, due mainly to seigniorage charges on new rupee coinage, to cover the cost of Mint establishments and other coinage expenses.

(3) *Interest*.—£150,000, due mainly to temporary investment of the Secretary of State's large cash balances, and to fresh investments made on behalf of the Paper Currency Reserve.

"In the Revised Estimate for 1916-17 and in the Budget for the current year we set aside, in all, £600,000 of the additional interest derived from our expanded Paper Currency Reserve investments for a Paper Currency Reserve Depreciation Fund, intended to make good the difference between the original purchase price of our consols holding in the Paper Currency Reserve and its value at current prices—*vide* paragraphs 12 and 53 of my speech introducing the last Financial Statement. The current year's Budget provision for this purpose amounted to £200,000: we now increase this to £450,000, which at present prices will raise the Depreciation Fund to the full limit required.

(4) *Income-Tax proper*.—£910,000, due to larger profits in various trades as a result of war conditions—of which £550,000 occurs under the Income tax head itself, while we realise £360,000 by special payments from the provinces. Income tax is a divided head, the proceeds of which are normally shared in equal proportions between Imperial and Provincial. But in order to obtain for the Government of India the full advantage of the increase in taxation imposed for Imperial purposes in 1916-17, the provinces have, as explained in paragraph 59 of my speech introducing the Financial Statement for that year, to pay to us what would normally have been their share of the proceeds of the additional taxation in question.

Against this, however, we have to set off a slight decrease of £70,000 under *Super-tax*, the receipts from which we estimated in the Budget at about £1½ million. This figure had to be taken very roughly, and it is satisfactory that it has been so closely worked up to.

(5) *Miscellaneous*.—£330,000, which includes £150,000 additional receipts in respect of the railway freight tax imposed this year (*vide* foot-note to paragraph 9), *i.e.*, the yield of the tax is now estimated at £650,000 instead of £½ million.

(6) *Excise*.—£180,000, owing to favourable agricultural conditions. The bulk of the increase under this head falls, however, to the provinces, and the above figure represents the Imperial share only.

"14. The only revenue item which shows any considerable decrease is *Opium* (£320,000), owing to the fact that we were not able, without going below the upset price we had fixed, to dispose of as much as we anticipated at some of our monthly sales in Calcutta—by reason of freight and exchange difficulties, and the dealers having considerable stocks in hand. The loss would have been heavier but for some counterbalancing increase owing to additional supplies to the Straits Settlements Government.

"15. The increase under Expenditure (£4·6 million) occurs chiefly under *Military charges*. The total net military expenditure for the current year was placed in the Budget at £25·9 million, including a reserve of about £700,000 to meet unforeseen charges. It is now estimated to amount to £28·8 million—an excess, that is, of £2·9 million. The increase over specific provision, which is due to war

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preparations and requirements, amounts therefore to £3·6 million and occurs mainly under the following items :—

(a) Additional outlay on rifles and ammunition	£900,000
(b) Grant of increased pay to British troops, following on the measures lately adopted by the Home Government	£520,000
(c) Larger expenditure on port defences, representing mainly the cost of mine-sweeping	£470,000
(d) Increased expenditure on guns, machine gun squadrons and "mechanical transport"	£200,000
(e) Increased railway charges in connection with larger movement of troops and stores	£140,000
(f) Larger outlay on military works including frontier roads and hospital buildings	£710,000
(g) Frontier operations, mainly connected with the Mahsud Expedition	£140,000
(h) Formation of the Indian Munitions Board	£140,000

" 16. Under *Political* we have likewise an increase of expenditure on the South Persia Rifles, a corps raised to assist the Persian Government in maintaining order in tracts in which British interests are specially concerned with reference to present war conditions. While such conditions prevail, the cost of this corps is borne by ourselves and His Majesty's Government in equal proportions. It is now estimated that our moiety will amount to £900,000 for 1917-18, including £210,000 of expenditure which really belongs to 1916-17, but will be adjusted in the current year's accounts. Against this, however, we have a Budget provision of £300,000, thus reducing the real excess to £600,000. On the other hand, there is a saving on other political expenditure in Persia which reduces the total excess under this head to £440,000.

" 17. The only other material increases over the Budget are :—

(1) *Interest on debt.*—£690,000, due to provision for discount on our Treasury Bills. When we issue ordinary loans at a discount, the accounts procedure is to credit the receipts at par value and to show discount as an interest charge. We follow the same procedure in regard to Treasury Bills.

As regards outlay in connection with our war contribution of £100 million to His Majesty's Government, we set aside £6 million for recurring charges, in respect of this amount, including (a) interest on money raised by loan in India and made over to His Majesty's Government, (b) interest on the balance to be taken over in the shape of Home war debt; and (c) sinking fund provision. I explained in paragraph 58 of my speech introducing the last Financial Statement that we were provisionally debiting this amount to the head Interest, and on further consideration it has been decided to maintain this allocation. The fact that our war loan receipts in India have been so much larger than we anticipated does not affect the total here, since it involves a counter decrease in the Home war debt taken over and the interest thereon.

(2) *Miscellaneous.*—£520,000, the chief item being £400,000 on account of stores lost in transit between England and India.

" 18. We thus, as I have already said, obtain an Imperial surplus of £5·8 million against £136,000 taken in the Budget. This satisfactory result is due in the main to the favourable agricultural conditions with which we have been blessed, and their results as reflected in the still further advance of Railway earnings. Our betterment here, together with the improved Provincial balances to which I shall refer directly, has been of material assistance to us in dealing with the very difficult situation we have had to cope with in respect of ways and means transactions.

Revenue and Expenditure—Provincial.

" 19. We estimated in the Budget that the provinces, in the aggregate, would obtain a revenue of £32·4 million and spend £32·5 million, leaving a deficit of about £100,000, which would be made up from their balances. The present figures indicate a revenue of £33·7 million and an expenditure of £31·4 million, thus leading to an aggregate Provincial surplus of about £2·3 million.

The improvement under revenue, which is most marked in Bombay, the United Provinces, the Punjab and Bengal, occurs mainly under Excise (£540,000) and Forests (£100,000). There is also a nominal increase of £470,000 under Income Tax; but that is largely set off, as indicated in paragraph 13 (4), by a payment to the Government of India under the head Transfers between Imperial and Provincial.

The decrease of about £1 million under expenditure, which is largest in the Punjab, Bombay and Bengal, is due to anticipated lapses in Budget grants, mainly in respect of civil works, education, police, and the profits from the wheat purchase scheme of 1915 allotted for outlay on agricultural objects.

The aggregate Provincial surplus goes, of course, into our balances, to the credit of the provinces concerned.

Borrowing in 1917-18.

War loan operations.

"20. Before going on to our ways and means transactions, I should like to say something about our borrowing operations in the current year.

Our net borrowing at Home is a *minus* quantity as, while raising no fresh money there, we have paid off £2·1 million in the shape of India Bonds and Railway Debentures falling due.

The War Loan we floated in India in various shapes was, as announced prior to its flotation, intended to be made over to His Majesty's Government for the purposes of the war, and to form part of India's total war contribution of £100 million which was offered with such general approval. The balance of the said £100 million was to be defrayed by our taking over a portion of the previously existing Home War debt.

"21. Having regard to the anticipations of my expert advisers and the necessity for caution, I was unable, in connection with the current year's Budget, to estimate the total amount of the War Loan at more than £10 million, though I expressed the hope that this might be materially exceeded. That hope has been justified to an extent far beyond the anticipations of the most sanguine expert, as will be seen from the figures below, which are in millions of pounds.

Main Loan	26·6
Postal Section	2·9
Cash Certificates	6·6
	<hr/>
Total	36·1
	<hr/>

The figures under the main loan and its postal section represent actuals, payments having been closed on the 15th October, and they include, under the main loan, £4 million actually received in March 1917 (our loan, it will be remembered, started on the 15th of that month) and a little over £1 million allowed to be tendered in England, on certain special conditions, in the shape of Home Treasury Bills, which were exchanged for allotments in the Indian War Loan. The cash certificates, which were introduced as a permanent measure, continue to yield money. The actual receipts up to the end of January amounted to £6,400,000, and we estimate that £200,000 more will have been received in the last two months of the year.

This splendid response to our loan is due in great measure to the patriotic propagandist work of Provincial and District War Loan Committees working under the auspices of the Heads of Provincial Governments, as also to the cordial co-operation of the Presidency Banks, especially those of Bengal and Bombay. The Bank of Bengal made special arrangements for advancing money, to be repaid in gradual instalments, to persons who wished to subscribe to the loan but had not funds immediately available. The Government also assisted its officers in this respect by a scheme under which these were enabled to subscribe in ten monthly instalments to be deducted from their pay—a scheme which was supplemented by the Presidency Banks in regard to officers who wished to spread their payments over a longer period.

"22. The surprising response to the loan had, however, one disadvantage. The Public Debt Office was absolutely overwhelmed by the volume of the work suddenly

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thrown upon it, and in spite of the utmost exertions of the Bank of Bengal, which manages this office, and whose staff had previously been depleted by a number of its officers going to military service, there was considerable delay in the issue of scrip. I may say that steps have been taken to prevent any such complaint in respect of next year's loan by simplifying and decentralizing arrangements as far as possible.

"23. Taking the various forms in which the loan might be subscribed to in the main section and its post office ancillary, the results are as follows:—

	[In millions of pounds.]
5 per cent. long-term Loan of 1929-47	8.3
5½ per cent. 3-year War Bonds	18.2
5¼ per cent. 5-year War Bonds	8.0
Total	29.5

It will be seen that, in spite of the conversion facilities it carried in regard to previous loans, less than one-third of the total was realised from the long-term loan, and that the 3-year short-term war bonds received a material preference over the 5-year.

It is interesting to note that the great bulk of the applications in all three issues were fully paid up, the percentage of such applications varying from 75 per cent. in the case of the long-term loan to 89 per cent. in the case of the 5-year bonds.

"24. As regards the cash certificates, the nature of which was explained in my speech introducing the last Financial Statement, these have come to stay, and the results this year have been most gratifying, the total figure (£8.6 million, of which only about £300,000 was found by withdrawals from existing postal accounts) being in excess of any previous year's regular borrowing in India. It will be remembered, however, that, although the normal currency of our cash certificates is for 5 years, we undertake to repay them on demand, though of course at some sacrifice of interest. Such withdrawals, on the basis of the latest statistics, will amount to about £600,000, thus leaving the net receipts at £6 million.

I look forward with confidence to the continued operation of this scheme as establishing a valid and welcome *nexus* between Government and the really small investors; and as an illustration of this I may say that 6 per cent. of the subscriptions to the post office section of the loan came from people who put in Rs. 100 or less, and that the purchase of Rs. 10 cash certificates accounted for about 21 per cent. of the total receipts under that head up to the 15th October.

"25. Taking the British provinces, in respect of the main and postal sections, and of the actuals already available as regards cash certificates, Bombay heads the list with a total subscription of 14 crores, followed by Bengal with nearly 12 crores, and by the Punjab with a little over 6. As a Madras officer, I must express my disappointment that my Presidency has not done as well, compared with others, as I expected, having allowed itself to be distanced not only by the United Provinces and the Punjab, but also by Burma. It has of course to be remembered that some of the subscriptions received in Calcutta and Bombay represented applications on behalf of subscribers residing in adjoining Provinces or States.

The loan was also most cordially subscribed to in the principal Native States. Taking the figures for the main loan, 113 lakhs (in round figures) were received from Hyderabad, of which 75 lakhs came from His Exalted Highness the Nizam; 88 lakhs from His Highness the Maharaja Sindhia, 54 from Mysore, of which 35 lakhs were subscribed by the Darbar; and 31½ from His Highness the Gaekwar of Baroda; while Their Highnesses the Nawab of Bahawalpur and the Maharaja of Patiala subscribed 40 and 25 lakhs respectively.

It is not possible to state with any degree of statistical accuracy to what extent the loan receipts represented money which would otherwise have remained with, or been lodged in, banks. But there is no doubt that a considerable amount—especially under the cash certificates and the postal section of the main loan—represented money that would not have been so employed, but was specially drawn out by the loan stimulus.

"26. At the time the loan was launched apprehensions were expressed in various quarters as to the prejudicial effect it would have on trade and commerce by drawing

off money from the banks. These anticipations have proved without foundation. The principle we adopted throughout was to leave the loan proceeds with the Presidency Banks, where they could be made available for trade purposes, until we actually needed them for disbursement, or the Banks specially requested their withdrawal; and the Presidency Banks on their side were ready to give assistance to other banks which might find themselves in temporary difficulties owing to the sudden withdrawal of their deposits.

The following figures will make our policy in regard to the loan receipts quite clear. In the third week of June these had swelled the Government balances with the Presidency Banks to nearly 24 crores, while by the end of September the balances had been gradually reduced to 8½ crores. But the withdrawals were employed, practically, to liquidate Council drafts, so the ultimate result was merely to transfer a portion of the Presidency Banks' holdings from public to private deposits.

The best proof of the success of the policy adopted was that when the payments to the main section of the loan closed in the middle of October, the Presidency Banks of Bengal and Bombay had such plethoric balances that we were able, without misgiving, to launch on the experiment in regard to Treasury Bills to which I shall now turn.

Treasury Bills.

"27. The drain on our resources caused by heavy war payments for His Majesty's Government and the Secretary of State's Council bills led us, in the middle of October, to introduce a new experiment—the issue of short-term Treasury Bills, which could be taken at option for periods of 6, 9, or 12 months. It was suggested to us in some quarters that we might issue three-months bills also, but this would then have been undesirable, as the bills would have matured at a time when it would have been inconvenient for us to meet them. Since January, however, we have been issuing bills of this description.

The results have been very satisfactory. Including a special temporary loan we took from the Bank of Bombay on very favourable terms to ourselves, in addition to a large purchase of Treasury Bills by that institution, we have in this way raised £25½ million up to 15th February 1918, and we hope before 31st March to get up to a total figure of £30 million.

Revised Estimate for 1917-18. Ways and Means.

(1) India and England together.

"28. As regards capital transactions, the following table reproduces the figures given in paragraph 72 of my speech introducing the Financial Statement for 1917-18, subject to certain modifications made in the final Budget and later:—

<i>Outlay.</i>	<i>£ million.</i>	<i>Resources.</i>	<i>£ million.</i>
Provincial deficit	0·1	Imperial surplus	0·1
Capital expenditure—		Unfunded debt	1·9
Railways	3·6	Special war receipts	0·6
Irrigation	0·6		
Delhi	0·3	Credit for silver purchased in	
Discharge of debt	0·9	1916-17	1·4
		Miscellaneous items	1·5
	<hr style="width: 50%; margin: 0 auto;"/>		<hr style="width: 50%; margin: 0 auto;"/>
TOTAL	5·5	TOTAL	5·5
	<hr style="width: 50%; margin: 0 auto;"/>		<hr style="width: 50%; margin: 0 auto;"/>

"29. (1) The figures for War Loan transactions have been omitted, as in the case of the corresponding table in the last Financial Statement, since they will go to His Majesty's Government in part liquidation of our £100 million contribution.

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[*Sir William Meyer.*]

(2) The figures do not follow the Budget in the following respects:—

(a) We then contemplated drawing on our balances in India to the extent of £3 million, corresponding to the estimated loan receipts during 1916-17. The present table is, however, squared without adopting this course, and to the extent to which our balances were in excess of the normal figure, these consisted of anticipatory war loan receipts which can be more conveniently dealt with in connection with the war loan figures as a whole.

(b) Miscellaneous items, £1·5 million.—The head Miscellaneous is made up of numerous entries, such as deposit transactions, etc., and it was anticipated at the time of the presentation of the Financial Statement that these would practically balance each other. Subsequently, however, the Secretary of State advised us that he expected to recover £1½ million less war expenditure in 1916-17, and a correspondingly larger amount in 1917-18 (*vide* paragraph 6 of my speech introducing the final Budget).

“ 30. But the figures as we can now forecast them will stand thus:—

	£ million.		£ million.
<i>Outlay.</i>		<i>Resources.</i>	
Capital expenditure—		Receipts from Indian Treasury Bills, etc.	30·0
Railways	3·1	Imperial surplus	5·8
Irrigation	0·5	Provincial surplus	2·3
Delhi	0·3	Net result of other transactions	0·6
Discharge of debt*	2·7		
Purchase of Home Treasury Bills	20·0	Total	<u>38·7</u>
Credits in favour of Federal Reserve			
Bank of New York	2·7		
Purchase of military stores and equip- ment awaiting allocation	2·1		
Total	<u>31·4</u>		

“ 31. (1) The capital expenditure falls short of the Budget Estimate by £600,000, due mainly to lapses under railway expenditure at Home, which could not be fully made up by extra outlay here.

(2) The discharge of debt figure includes £570,000 in repayment—(a) of a temporary loan of £330,000 taken from the Maharaja Sindhia in 1914-15 and (b) of three instalments of £80,000 each of the Gwalior loan of 1887. In 1914-15 His Highness the Maharaja intimated to us in the most generous and patriotic way that he would postpone repayment of these instalments during the war, but in view of its prolongation it has been decided to take no further advantage of this concession.

The remaining amount (£2·1 million) is in respect of debt in London, and is for discharge of India Bonds (£500,000) and Railway Debentures which matured this year. It was originally proposed to renew the latter, but in view of the Secretary of State's favourable financial position they have been paid off.

(3) We have also had to incur expenditure to the extent of £2·1 million on the purchase of military stores and equipment in anticipation of demands either in India or from the Expeditionary forces. Pending their allocation to specific requirements, when the cost will be treated as expenditure debitable to Indian revenues or recoverable from the Home Government as the case may be, it has to be charged to a suspense head, thus reducing the resources available for general ways and means purposes.

(4) The Treasury Bills receipts and the Imperial and Provincial surpluses have already been explained, while the American 'credit' transaction is referred to later in paragraph 39.

“ 32. The closing item in the 'Resources' column, which balances to £600,000, is the net result of transactions in respect of unfunded debt, special war receipts, credit for

* The discharge of debt is shown in statement C of the Financial Statement as amounting to 265 million: the difference between this sum and the figure given above represents rupee debt bearing interest at 2, 3½ and 4 per cent. which has been cancelled by the issue of a smaller face value of paper of the 5 per cent. long term Indian war loan 1929-1947 in connection with the conversion operations of 1917, and securities of the latter loan cancelled by purchase for the sinking fund constituted under the Loan notification. The amount of debt cancelled is shown in statement C as debt discharged by a *per contra* credit to the head "Deposits and Advances—Miscellaneous".

silver purchased but not yet obtained, and miscellaneous, which were shown separately in the statement in paragraph 28, and there totalled to £5·4 million.

(1) Apart from transactions connected with the transfer of the provident funds of certain Railway companies to Government which result in a credit of £800,000, unfunded debt is now estimated to bring us in £300,000 only, against £1·9 million contemplated in the Budget, owing to reduction in postal savings bank deposits by reason of the superior attractions of cash certificates and the postal section of the ordinary loan. There is no reason to regret this as it is of advantage to us to have deposits which are practically at call transferred to more permanent indebtedness. Cash certificates, I may say, come technically under unfunded debt, but it is convenient to deal with them in connection with the war loan, as the amount realised there-by is credited to His Majesty's Government like our war loan receipts proper.

(2) The adjusting credit in regard to silver is now altered to a debit of £200,000, as the amount outstanding at the end of the current year will exceed that at the beginning.

(3) Special war receipts are now estimated to produce £200,000 only, by reason of smaller receipts in connection with the employment of enemy ships.

(4) Miscellaneous items balance to *nil* as against an anticipated credit of £1½ million. This is due to—

(a) The amounts recoverable from His Majesty's Government in respect of 1916-17 having been less than anticipated.

(b) The fact that no recovery has yet been made, pending more definite compilation and adjustment of accounts, of the sums which under present arrangements constitute the share of His Majesty's Government in respect of the cost of the South Persia Rifles—*vide* paragraph 16.

" 33. It will thus be seen that, apart from the £20 million to be invested in Home Treasury Bills, which I will explain directly, we are about £27½ million to the good as compared with original anticipations, a result obtained mainly—

(a) By our having a large (combined) Imperial and Provincial surplus of £8·1 million, whereas in the Budget we expected these two items to balance to *nil*.

(b) By our receipts from Treasury Bills, including the temporary loan from the Bank of Bombay referred to in paragraph 27.

These results would lead up to an aggregate closing balance in India and England of £44 million as against about £17½ million taken in the Budget.

We have, however, arranged with the Secretary of State, on whose side, as I shall presently explain, the greater part of this balance has accrued, to reduce it by the purchase of £20 million of Home Treasury Bills, to be realised later in order to meet the special liabilities which will then come upon us.

" 34. Apart from our Treasury Bills, which mature in the coming year and which we propose to pay off or renew then, our position as regards temporary debt is as follows. In 1920 we have to pay off the three-year War Bonds issued this year amounting to about £13 million. In 1922 we have to pay the five-year War Bonds of 1917, amounting to about £8 million. Our this year cash certificates, amounting to £6 million net (after deducting amounts already repaid), will also fall due in 1922. In 1923, again, we have to pay off the loan of 1915, amounting to £3½ million: we have the option, however, of paying this in 1920. Moreover, our borrowing programme for next year will in all probability include the issue of short term bonds, and if we repeat bonds for three and five years, the former will mature in 1921, and the latter, and fresh cash certificates, in 1923.

Lastly, when peace conditions permit the resumption of the Railway Capital Programme on a scale necessary to provide adequately for requirements—and this will involve making up a lot of leeway in respect of the compulsory cutting down of that programme during the war—we shall probably find some difficulty in raising, on reasonable terms, the amount of capital which would be required.

We propose therefore, as against our temporary borrowings on Treasury Bills here, and in view of the satisfactory financial position of India as a whole, to invest £20 million in Home Treasury Bills in order to provide for the liabilities which in one way or another will come upon us shortly after the war is over.

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" 35. This investment will, of course, help the Home Government *pro tanto* in providing funds for the war. And counting in investments from the Paper Currency and Gold Standard Reserves, we shall thus have put £32 million of fresh money into Home Treasury Bills this year, making in all, in addition to the £35 million we had already put in up to the end of 1916-17, a total of £67 million lent to the Home Government, and quite outside our special war contribution, since the war began. This will be increased by £16 million in the coming year through the additional investment against the Paper Currency Reserve proposed in paragraph 70.

(2) *India.*

" 36. But though our position, taking India and England together, is a decidedly satisfactory one, there is a most marked difference between the position in the two countries, owing to the very large war expenditure which we have to meet here and for which the Secretary of State receives payment in London, while we have also to defray large Council drawings, which he issues in the interests of India's export trade, the bulk of which at the present time consists of commodities of national importance. Owing, again, to the high price of, and keen competition for, silver, the Secretary of State has not been able to make counter-remittances to us in this form (for coinage) to anything like the extent that we had hoped for, while the necessity of conserving the central gold resources of the Empire has precluded his making alternative counter-remittances to us in that metal. America, too, has prohibited the export of gold and silver except under special licence since September 1917. Accordingly, while the Secretary of State's balances have been exceedingly high, our position has been one of constant anxiety. We should indeed have been in a very parlous state but for the facts that—

(a) Our War Loan receipts proved far in excess of the most sanguine estimates that could have been framed in advance of the loan. And though the receipts ultimately go to His Majesty's Government, that takes place by adjustment between the India Office and the Treasury in London, so we get the primary benefit of the money subscribed here.

(b) We are, as already indicated, obtaining £30 million from Indian Treasury Bills or their equivalent.

" 37. The difficulties of our position in India will appear more fully from the figures which follow.

In the current year's Budget we estimated that we should have to incur a repayable outlay of £39 million for war purposes, including £2·7 million for remittances to East Africa and expenditure on behalf of Australia and the Ministry of Munitions. Leaving out minor miscellaneous adjustments, we proposed to find this amount to the extent of £24½ million from revenue, representing ordinary Home charges in respect of current and capital expenditure; £10 million from the proceeds of the War Loan, including cash certificates; and about £4 million through purchase of silver by the Secretary of State. The Secretary of State was to finance himself for his ordinary requirements from the recoveries he obtained from the War Office, etc., and we were unable to make any specific provision for Council drawings, barring a sum of £½ million representing the difference between estimated outstandings at the beginning and at the end of the year. For the current Council drawings we had to trust to further purchase of silver by the Secretary of State and further investment from the Paper Currency Reserve.

" 38. The present state of things, taking actuals so far as they are available and anticipations in respect of the remainder of the year, is as follows.

(1) The outlay on behalf of His Majesty's Government, including as before remittances to East Africa and expenditure on behalf of Australia, the Admiralty and the Ministry of Munitions, amounts to no less than £66 million.

(2) The Secretary of State's drawings are expected to amount to £34·8 million, inclusive of special allotments to the Exchange Banks to enable them to finance tea and rice purchases for His Majesty's Food Controller, and other payments which are practically equivalent to Council bills. The latter category covers special finance which we provided in India in respect of wheat purchases negotiated for the Royal Commission on food supplies.

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(3) We have further to provide funds for the purchase of tea for the War Office in Ceylon and of foodstuffs for that Colony in India, for coinage undertaken in India on behalf of Egypt, and for special remittances in connection with the war to Jeddah and other places. These various items amount together to £2 million.

(4) We have to meet increased liabilities for the payment of money orders issued by foreign countries on India to the extent of £5·3 million.

We thus get to the gigantic total (for India) of about £108 million, representing, in effect, remittances to England and other countries.

“39. To this we have to add a further sum of £2·7 million which, under arrangements between His Majesty’s Government and the United States, we have had to provide here in credits to the Federal Reserve Bank of New York for the benefit of American importers of jute and other Indian articles required in connection with the war, who would otherwise find it difficult to discharge their liabilities. This sum represents, in effect, an addition to the Secretary of State’s ordinary Council drawings. On the other side, the American Government credits us with an equivalent amount in dollars, and we are assuming the realisation of this sum next year—*vide* paragraph 66 *infra*.

Our special liabilities for what may be called remittance purposes thus reach about £111 million, which is nearly half as much again as our total current revenue (Imperial) as now estimated, and about three and a half times as much as the Secretary of State’s Council drawings in the last year of peace (1913-14), when we had, of course, no special war charges and the like to meet on behalf of His Majesty’s Government and other British Administrations.

“40. We have met, or will meet, this huge demand in the following ways—

(a) By proceeds in India of our War Loan, including £6 million (net) in cash certificates—about £34½ million. The loan produced an additional £1·1 million received in London under special conditions in the shape of Home Treasury Bills, but this is, of course, no use to us in India.

(b) By adding to £24½ million, put down in the Budget estimate as obtainable from revenue, the further sum of £7 million representing, approximately, improvements in revenue (Imperial and Provincial) arising in India: in all, therefore, £81½ million.

(c) By the obtainment of £30 million from Treasury Bills, including the special loan from the Bombay Presidency Bank referred to in paragraph 27.

(d) By fresh coinage of silver, or bullion awaiting coinage—£13·3 million.

(e) By profits from the Gold Standard Reserve in respect of rupee coinage—£1·4 million.

(f) By further investment in London on behalf of the Paper Currency Reserve, which sets free rupees on this side—£8·7 million. We took power last April to increase our Paper Currency investments by £8 million and had £1 million still in reserve against previous investing powers. Against this investments have been made to the extent of £8·7 million, leaving a balance of £300,000 which is available for further investment hereafter.

“41. We thus work up to a total of over £119 million as against remittance liabilities of £111 million. But we have likewise to take into account the worseness in our miscellaneous capital transactions as described in paragraphs 31 (3) and 32, and the net result is that we shall have a closing balance in India of £16 million against £12·2 million taken in the Budget. As will be seen later, this surplus will be fully required next year.

I have not taken any account in the above calculations of the measures adopted in respect of compulsory acquisition of gold coming into India, for we have to pay for this gold ourselves. The good it does us is not in any direct increase of our resources, but in the concentration of the gold in the Currency Reserve as against future possibilities, and also in the fact that some of the notes in which we pay for the gold will probably remain in circulation instead of coming back for encashment in rupees.

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(3) *England.*

"42. I next turn to the Secretary of State's position. His resources for the year are now estimated as follows:—

	[In millions of pounds.]
(1) Receipts from Council Bills, and on account of analogous payments, <i>vide</i> paragraph (2) *	35·8
(2) Recoveries from the War Office and the Ministry of Munitions, etc.†	65·0
(3) Special recoveries in respect of our disbursements or remittances of funds in respect of Ceylon, Jeddah, Egypt, etc.	2·1
(4) Increased receipts from the foreign money order transactions referred to in paragraph 38 (4)	5·3
(5) Subscriptions to Indian War Loan in London in the form of Home Treasury Bills	1·1
Total	108·8

"43. As against this the Secretary of State will have to meet the following disbursements:—

(1) Ordinary Home charges including capital expenditure outlay	25·0
(2) For purchase of silver †	13·6
(3) Payments to the Treasury of the net proceeds of the Indian War Loan‡	35·1
(4) Investment in Home Treasury Bills on behalf of the Paper Currency Reserve	8·7
(5) Investment on behalf of Gold Standard Reserve from profits on coinage	1·4
(6) Special investment of £20 million in Home Treasury Bills for the purpose indicated in paragraph 34	20·0
(7) Discharge of India bonds and Railway debentures	2·1
(8) Miscellaneous transactions	0·4
Total	106·2

These transactions and adjustments lead up to a closing balance in London of £8 million.

Currency and Exchange Difficulties.

"44. The figures I have cited in dealing with our ways and means operations during the course of this year evidence the nature and extent of the strain which these place on our resources. The subject is, however, one of such importance that I propose to turn now to its more general aspects, and to deal with the position more fully than by mere review of figures. The remittance operations to which I have referred have been on a scale abnormally huge as compared with the transactions of the country before the war. I will now explain as briefly as I can how these have tended to dislocate the mechanism of Government finance, and of trade finance also, owing to the intimate dependence of Indian trade on the financial machinery of Government. In normal times the remittances which the Secretary of State places at the disposal of trade through his Council drawings are required, so far as the

* This does not correspond exactly with the disbursement on our side estimated in paragraph 38, as the present figure includes some drawings which will be paid in India in 1918-19.

† This allows for sums which will be still outstanding at the close of the year.

‡ This figure differs somewhat from that given in paragraph 40(d) by reason of the fact that the Secretary of State pays for silver when he acquires it, whereas we do not get the benefit of it till it reaches India. Consequently, while the figures given in respect of his transactions relate to current purchases, those in respect of ours relate to receipts.

§ The gross receipts from our War loans in India and England together are shown at £361 million in paragraph 31, in accordance with the usual practice under which we credit the full face value of a loan under our Loans receipts, discount in respect of the actual rate of subscription being charged as interest expenditure which falls under current revenues transactions. But the net amount actually obtained, allowing for the fact that the long-term loan was issued at 95, and that our net cash certificate receipts are less than the gross by £800,000 (paragraph 24), is £281 million, and it is this amount that we pay over to the Home Government.

trade aspect of the matter is concerned, to settle only a portion of the surplus of exports of merchandise over imports, a substantial portion of the excess being discharged by the import of the precious metals by private agency. At the present time the position is aggravated not merely by the increased surplus of exports, but by the difficulty in effecting specie remittances. So, whereas ordinarily the primary object of the Secretary of State's Council drawings is to place him in funds to meet his expenditure in England, his large Council issues are at present made solely with the object of financing trade. His expenditure requirements would be covered nearly twice over by repayments made to him in London against the enormous disbursements made by us here on behalf of His Majesty's Government, these direct disbursements alone placing a very heavy strain on our resources.

"45. Our primary difficulty, then, arises from the extent to which, as a result of these transactions, our resources have been transferred from India to England. In normal times it might have been possible for us, as it would be for the banks on behalf of trade, to deal with this problem by the import of specie, or, as a refinement on this method, by earmarking gold in London against the concurrent issue of notes from our Paper Currency Reserve in India. These expedients, or modifications of them, have indeed been adopted to an extent which is, I think, not generally realized. Our imports of purchased silver have, during 1916-17 and the current financial year, amounted to not less than £20 million. The maintenance of silver purchases, however, on a scale sufficient to settle the balance of indebtedness to India would obviously not have been a practical proposition, while since the outbreak of the war, the importation or the earmarking of gold by Government has been precluded by the interests of the Empire.

"But though it has not been possible for us to earmark gold, we have adopted an alternative measure which, while it has a very similar effect from our point of view, is at the same time very helpful to the Home Government. We have taken powers to enable us, instead of earmarking gold for our Paper Currency Reserve against the issue of notes, to hold a portion of the Reserve in British Treasury Bills, which are the next best thing to gold. The effect of this transaction is that the Government of India provide, from their Indian resources, the money necessary for meeting the expenditure of the Home Government incurred in India, and they take repayment of a substantial portion of the amount so disbursed in the form of securities of the Home Government. In other words, we have lent to the Home Government for the time being the funds required for a considerable portion of their outlay in India, in the same way in which the United States grants loans to the Allies to cover the larger portion of their disbursements in America.

"There is another and analogous method by which we have also to some extent been able to deal with the problem. I refer here to what I have previously said in regard to our War Loan, and to our Treasury Bills. The proceeds of these are received by us in India and are available for financing our disbursements here, while we are repaid in England for services against which these disbursements were originally made. A portion of the amount so recovered, representing the equivalent of the subscriptions to our War Loan is, of course, not lent to the Home Government, but is actually made over to them as a gift in cash.

"46. It may perhaps be asked why we could not indefinitely continue the process of making payments in India in notes against purchases of British Treasury bills in England. The answer is, of course, that the extent to which we can issue notes is limited in two ways; in the first place by the extent to which the supplier of goods, or services, is prepared to receive notes in payment, while secondly we must maintain an adequate metallic backing to enable us to honour these notes promptly when presented. Any attempt to compel the acceptance of currency notes would react on public confidence and Government credit, and would result in the depreciation of our notes and the inflation of prices.

"47. This fact brings me to another aspect of our difficulty. The great demand for Indian products and other services which has resulted in the large transfer of funds from India to England has also necessitated the issue in India of a large amount of currency to pay for such products, etc. The demand for these products at the same time tends to cause a rise in prices in India, in this way also affecting the amount of currency required. To the extent that these currency requirements

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can be met by notes they have been so satisfied. The total of our active note circulation (*viz.*, excluding notes held in our Reserve Treasuries and by the head offices of the Presidency Banks), which is now 82 crores as against 50 crores before the war, is a definite indication of the progress which has been made in this way, and the further introduction of small value notes marks another definite step in the same direction. But ultimately the provision of metallic rupees is largely governed by the customs and prejudices of the Indian producer and artisan, and though these may be gradually modified, there is a definite limit to the extent to which a paper currency can in this country be substituted for coin.

“ Concurrently, then, with this large increase in our note issue, we must expect, and find, a very large demand for rupees. The net issues to the public during 1916-17 amounted to no less than 35 crores, while in the current year the net issues already amount to a further 24 crores, in addition to 8 crores (over £5 million) of sovereigns. That is 67 crores in all of issues of metallic currency since the commencement of the financial year 1916-17, or in rather less than two years. In normal years we could have hoped that a portion of the large volume of currency thus put into circulation for the purchase of agricultural produce and other supplies, for the payment of labour in mills and factories, and so on, would tend to return to the larger centres in payment for the imported commodities which the recipient classes consume. The contraction of imports caused by freight and other war difficulties, however, affects us in this way too, as well as from the point of view of our purely external exchange; and the net absorption would have been on an even larger scale had it not been for the fact that a certain quantity of our currency has returned to us in the form of subscriptions to our loans. Our requirements of silver have, therefore, been very great, and in attempting to satisfy them, the Secretary of State has been confronted with keen competition from other countries where also the economic position has entailed an increase in the silver currency. Such steps as we could take to eliminate competition by private importers with the Secretary of State we have taken, and I refer to them elsewhere. The fact, however, remains that the price of silver has in the last year been steadily advancing; and has for some time past, subject to some fluctuations, stood at a level at which the bullion value of the rupee exceeds its value as coin.

“ 48. This advance in the price of silver involved an alteration in the exchange value of the rupee on the basis of the rates at which the Secretary of State sells his Councils. The immediate necessity for this measure arose out of the fact that it would be unjustifiable for Government to undertake, at material loss, the supply of the large amount of new rupee currency required at the present time; and I should like to emphasise that this action was reluctantly taken only when it became evident that the price of silver was unlikely for a considerable period to recede from a level at which loss would be entailed by the continued sale of Councils at *1s. 4d.* It has been suggested that the potential loss was small and that it might legitimately be charged to the Gold Standard Reserve. I cannot accept either of these contentions. In the first place, the absorption of rupees during the years when the bullion value of the rupee was less than its face value affords no criterion of the probable demand on Government for rupees when, owing to a rise in the price of silver, it would become profitable to melt or to export them. In order to avoid loss from these causes as far as possible, we have, it is true, taken certain steps in the form of prohibitory legislation; but though prohibitions of the kind may serve their object to some extent as temporary expedients, they cannot be expected to operate as a permanent check to the drain on our rupee currency which would certainly accompany a substantial and continued appreciation in the bullion value of the rupee over its face value. In fact the most important limitation which has previously existed on the possible demand on Government for the supply of rupees, *viz.*, that it is unprofitable to export or melt them, would be entirely removed. The only safeguard that a rise in the value of silver above what I may call the ‘rupee melting point’ will not result in the disappearance of rupees from circulation is such a modification in their external exchange value as to make their export unprofitable. Apart from this safeguard an indefinite and unlimited liability would be entailed, and it would be indefensible for the Government of India to accept this liability as a loss either to the Gold Standard Reserve or to Indian revenues generally.

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"49. The references which certain of our critics have made in this connection to the report of the Royal Commission on Indian Currency and Finance are, as I said in Bombay last October, based on an entire misapprehension of the Commission's conclusions. The main danger which the Commission had in view was the possibility of the exchange value of the rupee falling below 1s. 4d., and their report lends no support to the view that the Gold Standard Reserve should be drawn upon to make good unflinchingly loss entailed by adhering to the 1s. 4d. rate in the case of such a contingency as that which has now occurred. I quote from paragraph 79 of their report:—"The object of the Gold Standard Reserve, they said, "is only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling." With this object in view, they definitely recommended that the whole of the Gold Standard Reserve should be held in London so as to make it as efficient as possible for the purpose, a portion of the Reserve then held in India being transferred to London at the earliest possible opportunity. I give these references to show that the *dicta* of the Commission did not envisage a situation such as that which has since arisen. Their conclusions presupposed a totally different set of conditions and cannot be appealed to in support of a plea that the measures which it has been necessary to adopt are inconsistent with the Commission's findings and would not be endorsed by them.

"50. I much regret any hardship imposed on our export trade by the increase which it has been necessary to make in the rate for Council drafts, and I am, of course, well aware that a rise in exchange would in ordinary conditions be prejudicial to that trade, like the limitations which the Secretary of State has found it necessary to impose on the volume of his Council drawings. Consequently, as I have repeatedly stated, we embark on any such action with the greatest reluctance, and simply to prevent greater evils. At the same time, while a rise in exchange tends, under ordinary conditions, to prejudice the export trade, it must be remembered that a country like India, which normally exports a considerably larger volume of commodities than she imports in order to discharge her external obligations—such as interest on her sterling debt, Home administrative charges, and outlay on stores and plant—gains by a measure which requires her debtors to pay more for the rupees in which their payments must eventually be liquidated. Or, to put the matter in another way, a rise in exchange means that a smaller amount of India's commodities, as expressed in rupees, will have to be sent abroad in order to provide for a specified amount of payments in sterling, and that she herself will have to pay less for the imports she obtains.

"51. Further, in considering the effect on India of a rise in exchange at the present time, allowance must be made for the effect of the abnormal conditions now prevailing. While an Indian exporter would doubtless, in normal circumstances, be prejudicially affected by a rise in the external value of the rupee, which would make it more difficult for him to compete with producers in other countries, this proposition does not apply when no keen competition on the part of other producing countries exists, when there is a large and an unsatisfied demand for many of India's more important products, and when, as a result of freight difficulties, exporters are able to ship practically all the goods for which tonnage can be provided. Even if it be granted that, as a result of the rise in exchange, exporters are receiving somewhat lower rupee prices than they would otherwise have secured, it is an undoubted fact that the actual rupee prices obtained are, in the case of most commodities, substantially in excess of pre-war prices and that, in spite of such restrictions as it has been necessary to impose, rupee prices within India have risen and not fallen. That this is the case is due to the great demand for India's products from abroad and to the enormous rise in prices which has taken place in almost every country in the world which consumes these products. It is indeed probably the case that but for the various restrictions which have attended the special external demands for India's products during the war, internal prices would have risen to a level higher than that at which they at present stand. Even as it is, the great increase in internal prices has become a serious hardship to the poorer classes within India, and special measures have been necessary to deal with some aspects of this problem.

"52. There is yet a further point which I would like to emphasise. India is not peculiar in being affected by exchange difficulties. Practically every country in

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the world at the present time is undergoing embarrassment in some form or other in connection with its foreign exchanges; and I think we are entitled to take credit for the fact that, in spite of the special difficulties with which we have had to deal, our currency system has borne the strain on it so well, and that we have succeeded in regulating sterling exchange to the public advantage in a way which has been possible in very few other countries. Thus in the case of France, the present exchange rate as between Paris and London has not only departed from the normal gold point to at least the same extent as the external rupee exchange, but it is also liable to indefinite fluctuations. In Italy and many other countries the exchanges have diverged further from normal, and are liable to even greater fluctuations. In the case of India, if exchange had been left to find its own level under the normal laws of supply and demand, the rupee exchange would long ago have reached a far higher level than it has actually done.

"I made observations of this description to the Indian Merchants' Chamber in Bombay last October, but I desire to repeat them here, through this Council, to a wider public.

"53. In this endeavour to maintain stability in our exchange rate, we have received the valuable co-operation of the Exchange Banks and others. In particular, I can record with satisfaction that exports of national importance, to which, as is well known, special priority in finance is now given by the Exchange Banks, have not, in spite of difficulties, been retarded by any breakdown in the arrangements for their financing. We may yet have to call to a still larger extent for the co-operation of merchants and others who have homeward remittances to make, with the view of applying these more largely than in the past to the financing of these essentially national exports; and to such an appeal I have no doubt that we shall find an adequate response from those engaged in the import trade.

"This co-operation being of the greatest value to us, we can, I think, reasonably require it to be given, and ask the banks and trade generally to submit in Imperial interests, and therefore for their own ultimate advantage, to a certain amount of control and inconvenience. After all, the bulk of the burden is being shouldered by Government. Apart from the £35 million which we have given outright to the Home Government in the form of cash in part liquidation of our war contribution, and in addition to our Gold Standard Reserve holdings and our ordinary Home Treasury balances, we shall by the end of the current year have accumulated in London £32 million of British Treasury Bills in the Paper Currency Reserve and £20 million in the special reserve referred to paragraph 34, or about £52 million of floating funds which we should be very glad to have in India.* Against these accumulations in England we have already undertaken in India a liability for about £30 million of short-term debt and £30 million of Treasury Bills. This "overbought position," as it would be described in banking terminology, will be further added to during the coming year. These facts are sometimes ignored by those who chafe under what they regard as arbitrary restrictions and who urge upon us that such restrictions could safely be removed or relaxed.

Budget Estimate for 1918-19. Current Revenue and Expenditure.

"54. Assuming that next year's monsoon will be normal, the following statement compares the Revised Estimate for 1917-18 with the Budget Forecast for 1918-19.

[In millions of pounds.]

	Revised, 1917-18.			Budget, 1918-19.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue	76·677	83·724	110·401	73·999	84·848	108·847
Expenditure	70·852	81·468	102·320	71·708	84·443	106·151
Surplus (+) or deficit (-)	+5·825	+2·256	+8·081	+2·291	—·095	+2·193

* The £67 million referred to in paragraph 35 included Gold Standard Reserve transactions.

Revenue and Expenditure—Imperial.

" 55. It will thus be seen that we expect to be about £2½ million worse off under revenue, while the expenditure is about £800,000 more than in the current year, thus giving a surplus of £2·3 million against £5·8 million now expected for 1917-18.

" 56. The reduction in Revenue is primarily due to a decrease in *Salt* receipts (£1·9 million), and the elimination of gain by *Exchange*, estimated this year at £1 million net. To take credit for the latter would be gambling on a continuance of the present rates of exchange, which we have no desire to see maintained when the circumstances that justify them pass away, and we therefore, following precedent, leave it out of account in our budgetary anticipations.

" The falling off under *Salt* is due to the stoppage of indents in Northern India, referred to in paragraph 11, which, in view of the state of stocks there, must continue for a considerable time.

" 57. As regards other heads, I give some remarks as to items which call for special comment.

" The following table, which is on the lines of that given in paragraph 9 for the current year, shows the total *Railway* results for 1916-17, and those now estimated for 1917-18, and forecasted for 1918-19:—

[In millions of pounds.]

	1916-17.	Revised, 1917-18.	Budget, 1918-19.
Gross receipts	41·8	45·5	47·0
Working expenses, including payments of surplus profits to Railway Companies.	20·7	21·7	24·1
Net receipts	21·1	23·8	22·9
Add—Receipts from Subsidised Companies and miscellaneous receipts in England.	0·2	0·2	0·1
Total receipts	21·3	24·0	23·0
Deduct—Interest charges and some miscellaneous expenditure.	13·8	13·9	13·8
Net profit on Railways	7·5	10·1	9·2

" In forecasting gross receipts for next year, we have to bear in mind that those of 1917-18 were swelled by an extraordinarily good monsoon, and that, with continued wear and tear of rolling-stock and absence of adequate facility for renewal, a time must come at which the railways cannot carry all the passengers and tonnage that they might otherwise convey. We think, therefore, that it is not safe to estimate for an increase of more than £1½ million on the Revised Estimate for the current year. On the other hand, we have to provide for an increase of nearly £2½ million under working expenses, including special renewals in order to provide, as far as circumstances permit us, for enabling the railways to bear the strain the present circumstances are putting upon them.

" Taking minor alterations into account, we thus, as shown in the table, get to a final net profit on Railways of £9·2 million against £10·1 million now estimated for 1917-18 and £7·5 million in 1916-17—a decrease, that is, of £900,000 as compared with the current year.

" 58. *Interest* receipts show an increase of nearly £1½ million, with reference to the investment of £20 million in Home Treasury Bills indicated in paragraph 34, and the fact that the special Paper Currency Depreciation Fund, referred to in paragraph 13 (8), having now been made up to the total amount at present required, no further contributions thereto will be needed.

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"59. There is a decrease of £300,000 under *Miscellaneous*, the principal item leading to this result being £170,000 due to profits on the wheat scheme of 1915, which figure in the accounts for the current year and will not now recur. But so far as Imperial revenues are concerned, the decrease under this latter item will be counterbalanced by an almost like decrease in payments to the provinces under *Transfers between Imperial and Provincial*, since most of the wheat profits were passed on to the Local Governments under this head.

"On the other hand, there is an increase here, by reason of a special recurring grant of £200,000 for the development of *primary education*, which we propose to make in supplement of that given this year for improving the pay and training of teachers in primary and secondary schools. We desire to give this fresh evidence of our concern for educational development, though the amount we can assign is but small by reason of the strain on our resources occasioned by the war. Apart from this too, as Your Excellency indicated in your opening speech, it is impossible to embark on large fresh commitments from Imperial funds till the future powers of local bodies, and the future relations of local, Provincial and Imperial finance, have been determined in connection with the scheme of Constitutional Reforms.

"Nearly the whole of this grant will be distributed to the provinces, and these and other adjustments will result in the net payment from Imperial revenues under *Transfers between Imperial and Provincial* being about the same as in the current year.

"60. (1) Under *Customs*, we anticipate about £410,000 less than now estimated for the current year, on the assumption that a decreased volume of trade, which will probably result from the shipping situation, will be largely countered by higher prices reflected in our *ad valorem* duties. It is necessarily a matter of increasing difficulty to forecast the manner in which war restrictions will affect our Customs revenue. We must, of course, expect the limitations imposed by freight scarcity and restrictions on production to continue in an accentuated form. On the other hand, the export restrictions from the United Kingdom may not impossibly be set off to an increasing extent by substitutes from other countries, *e.g.*, we are obtaining a larger amount of provisions from America and Australia, and, still more, by the higher level of prices. On the whole, therefore, we have come to the conclusion that it will be safe to take a somewhat smaller figure than the Revised Estimate of the current year, allowing for the fact that we can expect no receipts from private imports of silver in 1918-19.

(2) As regards *Income-tax* and *Super-tax* (taken together) we estimate an increase of about £170,000 over the receipts of the current year as shown in the Revised Estimate.

(3) *Posts and Telegraphs* are estimated to give us £290,000 more. But this is more than set-off by an increase of £330,000 under expenditure, due to expansion of the operations of the Department, an increase in pay of establishments with reference to war conditions, and increased price of stores and stationery.

"61. Turning now to the Expenditure side, the net outlay under *Military Services* is estimated in the current year at £28·8 million. But various items of this are non-recurring or will recur in smaller proportion next year. In the former category figures this year's expenditure on rifles and ammunition (£1,450,000); the latter covers diminished expenditure in connection with the North-West Frontier (£370,000), purchase of Hotchkiss and Lewis guns, manufacture of ammunition, etc. (£170,000), and smaller provision for Home stores, Military Works, and Railway charges, etc. (£510,000).

"On the other hand we have to take into account:—

(a) £550,000 extra for increased pay concessions to British troops—*vide* paragraph 15, item (b)—for a whole year instead of for a few months only as in the current year.

(b) £200,000 for introduction of the Station Hospital system for India and improvements of hospitals.

(c) £250,000 for extension of Ordnance factories.

"The net result of these various changes is to bring the allocated 1918-19 expenditure up to £27·3 million, and to this we add a reserve of £1·7 million for charges at present unforeseen, so as to be in a position to meet additional outlay consequent on the war such as has come on us after the Budget was framed in the last two years. The total provision for net Military expenditure is thus £29 million.

"62. India's share of the total expenditure on the South Persia Rifles which, as stated in paragraph 16, is shown under *Political*, is estimated at £750,000 for next year, against £900,000 this. The decrease is mainly due to non-recurrence of the adjustment which had to be made this year in respect of charges of 1916-17, *vide* paragraph 16 *supra*. But allowing for increase in other *Political* expenditure in Persia, the total figures under this head are £350,000 more than in the Revised.

"63. (1) Our total charges in respect of the War debt remain at £6 million, including sinking funds of £270,000 in connection with this year's long term Indian issue (*vide* paragraph 81 of my speech introducing the last Financial Statement) and £470,000 in respect of the Home war debt taken over.

(2) Under *Miscellaneous* we get an improvement of £500,000 by reverting to the Budget figure for the current year and omitting the special increase in the Revised referred to in paragraph 17.

"64. The final result, so far as it can at present be forecasted, is, as I have already said, a revenue surplus of £2·3 million. We shall need every penny of this—and more too if it should accrue to us—to meet our ways and means difficulties, and there can be no question, while war conditions continue, of reduction of taxation. On the other hand, as our difficulties arise on the ways and means, and not on the revenue, side there is no present necessity for adding to the fresh imposts imposed during the last two years. We therefore keep our taxation on the existing level.

Revenue and Expenditure—Provincial.

"65. The Provincial revenues are taken in the Budget at £34·3 million and the expenditure at £34·4 million. An increase of revenue is anticipated everywhere except in the United Provinces. The current year's revenue in these provinces has been inflated by special receipts from irrigation, and provision has been made for normal receipts in the coming year; part of the decline is also due to the omission of the non-recurring assignment made to provincial revenues in the current year from the profits of the wheat scheme. Assignments on the latter account have been made to other provinces also, but in their case the increase of revenue from normal growth is expected to exceed the deterioration arising from the omission of the assignments next year.

"The result is, as I have said, that Provincial receipts and expenditure are nearly in equilibrium; but nevertheless the provinces can anticipate the spending of nearly £3 million more than they were able to lay out in the current year.

"The financial situation has compelled us to keep in force the instructions to Local Governments I have referred to in previous speeches to refrain from new outlay which is not immediately necessary or remunerative, and to maintain their expenditure as far as possible within the limits of their current income. I have once more to acknowledge the loyalty with which the Local Governments are carrying out this policy, and the figures I have just cited show that the restriction has not been incompatible with reasonable increase in Provincial expenditure.

Budget Estimate for 1918-19. Ways and Means.

(1) *India and England together.*

"66. Our ordinary capital transactions are estimated as follows:—

(In millions of pounds.)

<i>Outlay.</i>		<i>Resources.</i>	
Capital expenditure—			
Railways	4·2	From balances	3·6
Irrigation	0·5	Net revenue surplus (Imperial and Provincial)	2·2
Delhi	0·3	Unfunded debt, excluding cash certificates	1·2
Discharge of debt	5·9	Special war receipts	0·2
		Credit for silver purchased in 1917-18	1·0
		Net balance under <i>Miscellaneous</i>	nil
		Repayment of credits placed at the disposal of the Federal Reserve Bank of New York in 1917-18	2·7
		— <i>vide</i> paragraph 39.	
Total	10·9	Total	10·9

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"67. (1) The Railway and Irrigation expenditure follow the figures advised by the Departments concerned, the Railway outlay being put at about £1 million more than in the current year's Revised Estimate.

(2) Discharge of debt includes £3·1 million for payment of India Bonds and Railway Debentures which will mature in the coming year, £2·7 million for the repayment of the temporary loan taken from the Bank of Bombay in the current year, and £80,000 for the instalment of the Gwalior Loan of 1887.

(3) Allowing for the small Provincial deficit exhibited in paragraph 54, the net surplus, Imperial and Provincial, is £2·2 million.

(4) The statement includes nothing from Treasury Bills, as we assume that what we can thus obtain next year—say, about £27·3 million—will merely suffice to wipe out the similar obligations incurred during the current year.

Nor do we make any allowance here for ordinary loan receipts, since, as will be seen presently, it is proposed to apply what we can raise by loan in the coming year to the further liquidation of our £100 million contribution to the Home Government.

(5) Under Miscellaneous we provide for the anticipated recovery from the Home Government of their share of the expenditure on the South Persia Rifles for the period ending 31st March 1918—*vide* paragraph 32 (4) (b). But against this and other miscellaneous receipts, provision has to be made for the payment of Council bills amounting to £2 million which remain unpaid at the end of the current year. The final result is a *nil* adjustment in respect of Miscellaneous.

Our aggregate closing balance in India and England on the 31st March 1919 is estimated at £20½ million.

(2) *India.*

"68. But though our position, taking India and England together, is quite satisfactory, the resources shown in paragraph 66 being the same as the liabilities, things are very different when we look at India alone. Our recoverable war expenditure for His Majesty's Government cannot be estimated at less than about £70½ million, while we have in addition to supply funds to East Africa to the extent of £2·8 million : in all therefore £73·2 million.

"We shall also have to meet £2 million in respect of Council Bills drawn by the Secretary of State in the current year but not payable by us till after its close, and £2·7 million in respect of the temporary loan obtained from the Bank of Bombay which has to be repaid in 1918-19. Our liabilities thus come to £78 million.

"69. Against this we have £22·1 million available from surplus of revenue over expenditure in India, and we anticipate getting £20 million by fresh borrowing, a measure on which I shall have more to say later. So far then, we have got £42 million, and are still £36 million to the bad, without making any allowance for fresh Council Bills.

"70. We hope to meet this deficiency thus :—

(a) By specie remittances from the Secretary of State to the extent of £13 million, including £1 million in transit at the end of the current year.

(b) By further investment, as circumstances require it, of £16 million (24 crores) against the Paper Currency Reserve—or, if account be taken of the unutilised balance of our existing powers, of £16·3 million, thus giving us the command of an equal amount of money here. I shall later on introduce a Bill giving us the necessary power in this respect.

(c) By drawing £5 million from our balances in India which, as I have already stated, are expected to stand at £16 million at the close of the current year.

(d) We also expect that we shall obtain repayment during the next year of the credits for £2·7 million which we are placing at the disposal of the Federal Reserve Bank of New York during the current year. But that sum will be required for payments of foreign money orders, as remittances by this source must be assumed to continue next year, though, we may hope, not on the same scale as this year.

"On these calculations and allowing for some minor adjustments, we should have a closing balance in India of about £11·1 million, which is a good deal less than the normal closing balance (£12½ million) to which we usually look.

"71. It will be observed that these calculations take no account of the Secretary of State's fresh Council drawings. We do not, of course, propose that these should be suspended—a measure which would produce very undesirable effects on Indian trade. On the contrary, we desire to meet Council drafts so far as we can, but the exposition I have given will show how difficult we shall find it to do this. All we can say at present, therefore, is that we shall endeavour to provide for Councils as far as our resources permit. We may, for example, be able to get more in the way of specie remittances than the figure mentioned above, and to the extent that acquisitions of specie will add to the proportion of metallic holdings in our Paper Currency Reserve, we may, as time goes on, be able to justify a further investment from this. Our loan transactions may give us more than it is at present safe to anticipate, and the same remark will apply, if the seasons are good, to our revenue receipts. But I have said enough, I think, to show how very uncertain is the position, and how absolutely necessary it is that we should conserve our resources as much as we possibly can.

(3) *England.*

"72. Leaving out of account Council drawings, in regard to which, as I have said, we can make no definite provision at present, and allowing, for some recoveries from His Majesty's Government being still outstanding on 31st March 1918, the Secretary of State's resources for next year will consist of about £75 million in the shape of recoveries from His Majesty's Government for fresh and past war expenditure, and miscellaneous adjustments of an analogous character.

Against this he will have to make the following disbursements:—

	(In millions of pounds.)
Ordinary Home charges, including capital expenditure outlay	22·3
Payment to His Majesty's Government for proceeds of our new War loan	20·0
Investment on behalf of Paper Currency Reserve	16·8
Payment for silver remittances (a)	12·0
Discharge of India bonds and Railway debentures	3·1
TOTAL	73·7

"There will thus be an increase in his closing balance, which is expected to stand at £9·3 million, as compared with £8 million with which the year opens. It is too early yet to contemplate definite utilisation of any portion of this balance by further special investment or otherwise.

Next year's borrowing.

"73. I will conclude this portion of my speech with some further remarks as regards our borrowing next year. We propose, following this year's precedent, that the regular loan receipts, and those from cash certificates, shall all go to His Majesty's Government for the prosecution of the war in further redemption of our £100 million contribution. We thus assist ourselves also, since the payment to His Majesty's Government is made by adjustment with the Secretary of State in London, while we get the primary benefit of the sums received in India.

"74. As I have already said, the War Loan of this year, including cash certificates brought us in nearly £35 million in India. Next year's loan will again have no limit of amount, and I shall rejoice if we get results approaching to those of this year. The success of the 1917 loan was largely due to the splendid efforts made by Heads of Provinces and Provincial and Local Committees, and the Government of India look with grateful confidence to a renewal of these efforts in respect of the fresh War loan of 1918. But in framing Budget estimates I must proceed cautiously,

(a) See foot-note f against paragraph 43. In this case the figure here given represents the Secretary of State's current purchases: that shown in paragraph 70 (a) is our estimated receipts, including amounts purchased in 1917-18 but which will only reach us next year.

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and take into account that the very fact of this year's effort having been such a large one militates against the expectation of an equal harvest next year. It has to be remembered too that we also count on raising £27 million by Treasury Bills. For the purposes of the Budget estimates therefore and our ways and means calculations, and after consultation with my expert advisers, official and non-official, I do not think it safe to put down for the present a larger amount than £20 million for next year's War Loan, including cash certificates. But I repeat that this is regarded as a minimum amount, and that no one will be better pleased than I (and I can speak with equal confidence, on behalf of Your Excellency and the Government) if this estimate should be very largely exceeded, and India's effort should once more show that she derides the cautious calculations of her financiers.

"I would impress on the Council and the public that the raising of a large war loan here produces three very material advantages to India and the Empire. *First.*—It gives His Majesty's Government fresh money for the conduct of the war in lieu of a mere readjustment of previous war expenditure, and thus makes India's war contribution still more useful. *Second.*—It assists the Government of India in obtaining funds for the financing of war expenditure here to meet the needs of His Majesty's Government. *Third.*—India profits economically by her war contribution being raised by internal borrowing, the interest on which is disbursed in this country, instead of by adjustment which involves payment of interest on a portion of the British debt.

"The raising of a further sum of £20 million by loan in this country will bring our total contribution by fresh borrowing to more than half of the full £100 million for which we have made ourselves liable; and to the extent that we may obtain more than £20 million this proportion will be correspondingly increased. I may add that in order to eliminate as far as possible competition with our efforts in this direction, we shall shortly place restrictions on issues of capital in this country, except in so far as these are required for enterprises of national importance at the present time. I shall before long introduce the legislation necessary to give effect to this decision.

"75. Having regard to present money conditions and the fact that we are obtaining funds at present by the issue of Treasury Bills, we do not propose to start the new loan immediately and it would be premature at present to commit ourselves as to the date of issue and the form which the loan shall take. I may, however, provisionally indicate that, having regard to the relative amounts obtained this year on the long term loan and from the short term war bonds, we are at present disinclined to issue a further long term loan in 1918. I think, after consulting those who are entitled to speak with most weight on this matter, that we shall be more likely to obtain an adequate response by concentrating ourselves on short term bonds. We might, for example, put out once more the 3-year and 5-year bonds, which were so successful this year, and add a further category of bonds having a somewhat longer period. We contemplate that outstanding Treasury Bills shall be received on suitable terms in subscription to the new loan.

The cash certificates will, of course, continue on their present footing.

"76. I need only at present add a few words on the subject of premium bonds, which to some people seem a desirable method of adding to the attraction of our loans. I may say at once that I have no puritanical scruples in this matter, and that if I thought that the issue of premium bonds would bring us in any large amount of money which we should otherwise not obtain, I would do my best to get them sanctioned. I have, however, found that the general opinion of financial and commercial authorities entitled to speak with weight on this subject is that we should not obtain this result. It would *prima facie* be impossible for us to issue a loan at a very small rate of interest (having regard to present market conditions) with the bulk of the inducements in prizes: that would be a gambling transaction which the Government ought not to take up. As regards the alternative of issuing a loan at a fair flat rate of interest, though somewhat below what we should otherwise have to pay, with supplementary prize inducements, the general opinion is that it would not work. Having regard to the present price of money, banks and serious investors are not likely to be satisfied with less than the rate of interest we had to pay this year on the remote chance of getting a prize; while as regards those who like a flutter, the consensus of opinion is that they

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prefer speculative share investments, which involve a considerable degree of real or imaginary skill and give them the constant stimulus of following the ups and downs of the market. These views receive corroboration from the fact that the recent premium bonds issue in Ceylon was a complete failure.

"We have also the fact that the Committee which the Home Government appointed to consider the question of premium bonds advised that it was doubtful whether the additional funds thus obtainable would justify controversial legislation. That is our feeling also as regards India. The expedient would undoubtedly be resented by many on what they hold to be moral grounds, and I do not think that we should be justified in ignoring such scruples on a very problematic chance of making material sums which would not otherwise be obtainable. I cannot, therefore, advise that we should try this experiment.

Paper Currency and Gold Standard Reserves, and Exchange.

"77. The following statement gives the total and active note circulation on the 1st February of each of the last five years, the active note circulation excluding the notes held in reserve treasuries and headquarter offices of the Presidency Banks:—

Year.	[In crores of rupees.]	
	Total Circulation.	Active Circulation.
1914	68·9	51·9
1915	60·3	45·1
1916	62·4	54·1
1917	84·4	67·9
1918	104·8	82·1

"It will be seen that the 1917 figures, which were at that time a heavy 'record' have now been far passed, thus affording further testimony to the confidence the people have in our note issues, and to the effect of the measures taken in recent years towards making our notes more easily cashable. For it is an easily understood paradox that the more you increase facilities for ready encashment of notes, the greater is the confidence in their value and the fewer the occasions on which they are actually presented for encashment. This expansion of circulation has been of material assistance to us in our ways and means difficulties by enabling increasing investment from the Paper Currency Reserve.

"78. As the Council are aware, till lately our lowest denomination of notes was Rs. 5, but we have now made the experiment of issuing still smaller notes for Re. 1 and Rs. 2½ respectively. The former were issued on the 1st December 1917 and the latter on 2nd January last, and at the outset the issues in India were confined to the three Presidency cities; while in order to enhance confidence in the notes, we have given special facilities for their encashment at local post offices. The results so far have been very satisfactory, the total issues having reached a value of Rs. 45 lakhs, and the encashments of Rs. 11 lakhs only, leaving a margin of Rs. 34 lakhs worth of these small notes actually in circulation. The success of the experiment has already warranted its extension to some of the other large cities.

"It should be understood that though the area of issue is as yet limited, the Re. 1 and Rs. 2½ notes are received anywhere in payment of Government dues, and are encashable at all currency offices and treasuries in the same way as our other universal notes.

"We have also sent about Rs. 4 lakhs worth of these notes to Mesopotamia, where the people are accustomed to minute paper currency. We are likewise, at the request of His Majesty's Government, sending about £500,000 worth to East Africa.

"79. As regards the metallic portion of our Currency Reserve, on the 31st March last we held about £8 million of gold here and about £4½ million in England, or in all £12½ million. The figures now stand at £19 million and £½ million respectively, or in all £19½ million. I shall speak presently of the main transactions that have led to this result.

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" As regards silver, our holdings in the Paper Currency Reserve, including bullion under coinage, amounted on 31st March last to about 19 crores (or nearly £13 million). They at present stand at about 13½ crores (£9 million).

" 80. The increase in our gold and silver holdings together in spite of a further investment from the Paper Currency Reserve thus amounts to about £3 million. This has of course been made possible by the increase in our currency note circulation, the total of which now stands at 105 crores (£70 million) against 86 crores (about £57 million) at the beginning of the year.

" At the beginning of the year we had invested about 56 per cent. of our holdings against total note issues. The present percentage is still about the same figure, with the advantage that nearly all our gold is now held in India ; and this enables us to contemplate the further investment indicated in paragraph 70 above.

" 81. In paragraph 34 of my speech introducing the last Financial Statement I explained that, with the object of relieving the strain on silver and of reducing the premium on gold, we had started selling a portion of the raw gold held at Bombay on behalf of the Bank of England, the gold bullion thus taken over by us being paid for by sovereigns from our Reserve in London. These sales were continued between 18th January and 26th April last, during which period we disposed of over £4 million of bullion. They were then discontinued because a transfer of gold to India from Australia and New Zealand, in exchange for our London holdings of gold, made it necessary for us to reserve those holdings for that purpose. The effect of these sales upon the silver position can only be vaguely estimated. Enquiries showed, however, that most of the gold which was sold found its way up-country and must have resulted in drawing into circulation a certain amount of rupees which those who ultimately acquired the gold would not otherwise have parted with.

" 82. Last April, again, in view of our then depleted stock of rupees we found it necessary to issue sovereigns in the hope of relieving the strain on our silver balances. The absorption of rupees in that month was over £4 million, and on 7th May our holding of silver in the Paper Currency Reserve amounted to about 13 crores only, which was the lowest point touched for over 10 years. What may be called the relief-issue of sovereigns, which continued till the end of August, amounted to about £5 million, the bulk being absorbed in the Punjab where they were utilised in the purchase of wheat. By that time our silver position had improved, and in accordance with our general policy of retaining our gold holdings as our second line of reserve, the necessity for further issues of gold thus disappeared. We have lately, however, had to recommence the issue of sovereigns with reference to a renewed depletion of our silver stocks.

" 83. Since June last we have been acquiring private imports of gold under the Gold Import Act, the provisions of which I explained in this Council on the 26th September 1917, and thereby raised our gold holdings by about £12 million. As I have already explained (paragraph 6) most of this gold has come to us from America and Japan. The gold so acquired was passed into the Paper Currency Reserve, an equivalent amount of notes being issued to the importers from whom it was obtained.

" An analogous transaction, which has also had the effect of strengthening our gold holdings, is the arrangement recently arrived at between His Majesty's Government, Japan and ourselves under which, by the end of the current year, we shall have received £2 million of the Bank of England's gold held in Bombay. This amount is placed in the Paper Currency Reserve, and we issue against it an equivalent amount of notes to the nominees of the Japanese Government.

" 84. As the Council is aware, we have, besides taking over all private imports of gold, forbidden, since July last, the import and export of silver into or from India except on Government account. In respect of imports the object is to avoid private competition with the Secretary of State's purchases, and also to preclude private imports of this metal being used to obtain Indian money for the financing of exports not of primary war importance : as regards exports to conserve the stock of silver already in the country. We have, with a like object, forbidden the melting of rupees and sovereigns.

" 85. The Council is also aware that we have obtained permission from the Home Government to coin sovereigns in India, and although the establishment of a Gold Mint in Bombay for this purpose which will work as a branch of the Royal Mint in

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London, has been delayed owing to the necessity of satisfying conditions laid down by the Home Treasury, the construction of our Mint is now in hand, and we hope that it will be issuing sovereigns by May. Its operations will extend in the first instance to the coinage of foreign coins and refined gold, but arrangements have been made to enable it to take up the coinage of unrefined gold also. In the meantime we have got coinage done for us in Australia, in pursuance of the arrangements I explained to the Council in my speech on 5th September last introducing the Paper Currency Amendment Bill, which subsequently passed into law as Act XLIX of 1917, and we are now entitled to treat as part of our Currency Reserve gold held on our account in any part of His Majesty's Dominions, or in transit therefrom.

" 86. As regards silver prices, these stood at an average of nearly 87*d* per ounce in April, and had risen to an average of nearly 51*d* in September, the high watermark of 55 being reached towards the end of that month. This latter figure, which was largely due to speculation, was however not long maintained. In October the average price had fallen to 44*d* and in November to 43, at which level it has practically stood since.

" The increase in silver prices led to alteration in the price at which the Secretary of State sells his Councils. I have dealt with this matter already, and need only refer briefly here to what I said in the Legislative Council on the 24th September in answer to a question by the Hon'ble Mr. Hogg, when, under the authority of the Secretary of State, I explained the conditions by which he is guided in fixing his Council rates. These rates are being, and will continue to be, based roughly on the price at which he is able to buy silver. He cannot be expected to sell rupees at appreciably less than their actual cost, but he intends to apply this principle with considerable latitude so as to avoid changes as far as possible. Once again I must emphasise that the measures adopted to meet an abnormal increase in the price of silver, caused in their turn by the special circumstances of the war, must in no way be considered as implying the abandonment of the policy of a fixed and stable exchange; that by selling his Councils at fixed rates the Secretary of State did all he could to keep exchange stable; that he only raised those rates in August last when the bullion price of the rupee made this necessary; and that the rise in external exchange has not in any way affected the internal parity of rupees and sovereigns, which remains at the standard rate of 15 to 1.

" 87. The following statement shows the holdings in the Gold Standard Reserve on the 1st April last, at the date of the last published statement, and as we expect them to stand on the 31st March.

[In thousands of pounds.]

—	Book credit in India.	Gold held in India.	Cash placed by the Secretary of State for India in Council at short notice.	Invested in London.	Total.
1st April 1917 . . .	181	108	6,001	25,406*	31,691
31st January 1918 . .	...	...	6,019	27,798†	33,817
As estimated on 31st March 1918.		...	6,000	23,816†	54,816

" The increase in the total holding is due in part to the fresh rupee coinage we have had to undertake from silver purchased in the earlier months of the year; and the interest on previous investments is, as usual, added to the assets of the Fund.

" The average rate of exchange in the current year calculated on the Secretary of State's drawings, will amount to 16.55 pence per rupee against 16.15 pence in 1916-17.

* This represents the value of the securities as on the 31st March 1917.

† This represents the value as on 30th September 1917 (the date of the last valuation) of the securities then held and the cost price of securities purchased since that date.

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[*Sir William Meyer.*]**REMARKS ON CERTAIN SPECIAL HEADS.****A.—Military Services.**

“88. The table below shows the gross and net expenditure on military services for the coming year and the four years preceding:—

	Gross.					Net, <i>i.e.</i> , deducting receipts.
	Army.	Marine.	Military Works.	Special Defences.	Total.	
	£		£	£	£	£
1914-15	20,336,559	463,370	996,071	13,603	21,899,603	20,434,915
1915-16	21,893,200	745,513	850,566	13,514	23,503,093	22,261,353
1916-17	24,260,003	693,680	1,594,538	18,536	26,566,757	24,990,811
1917-18 (Budget)	25,215,900	838,500	1,158,700	14,000	27,227,100	25,900,000
1917-18 (Revised)	27,665,400	736,600	1,872,300	10,400	30,284,700	28,782,500
1918-19 (Budget)	27,790,900	960,300	1,731,500	... *	30,532,700	29,000,000

“89. I have already indicated in paragraph 15 the more important causes contributing to the increase in the Revised Estimate for 1917-18 as compared with the Budget. These account for about £3·2 million, and other minor factors for a further increase of about £0·8 million. On the other hand, there have been some savings, the most important of which are the lapse in the Home provision for construction of vessels for the Royal Indian Marine and credit for a dredger taken over by the War Office, amounting together to £157,000; reduction in food charges; and reduction in the non-effective charges in India and England. The reserve of about £700,000 included in the current year's Budget to meet unforeseen expenditure must also of course be set off against the increase in specific expenditure to which I have referred.

“90. The receipts have risen by £175,000, which is mainly accounted for by large sales of dairy produce to overseas forces, war hospitals, etc., and by the recovery of departmental charges on stores supplied by the Indian Munitions Board.

“91. The Budget provision for next year has been fixed at £29 million. I have already (paragraph 61) explained the need for this large provision. It includes a reserve of £1,677,000 to meet charges which we cannot yet specifically foresee, but which, as the experience of preceding war years shows, are likely to come upon us in one way or another.

“The head ‘Special Defences’ has been abolished with effect from 1st April 1918, and any remaining transactions will be adjusted under the head ‘Military Works’

“92. The total cash contributions from Indian Princes and others towards the cost of the war received this year amount to £428,000. His Excellency the Commander-in-Chief has also continued to receive considerable sums for the provision of motor ambulances and the like and the supply of comforts to the troops at the front.

“93. The gross amount contributed from Indian revenues on account of the normal pay and charges of the military forces despatched out of India up to the end of 1917-18 may be taken at £28 million. Against this, however, must be set the cost of maintaining substituted British troops (Territorial and Garrison battalions) actually serving in India, which is borne by His Majesty's Government under the Resolution of the Houses of Parliament referred to in paragraph 39 of my last year's speech. Taking this into account, our total net contribution towards the cost of the war

* Closed as a separate sub-head—see paragraph 91.

in respect of the Expeditionary Forces is about £15½ million to the end of the current year, to which another £4½ million should be added in respect of 1918-19. And outside these adjustments, and taking our normal net military expenditure, on the basis of the 1913-14 figures (£19·9 million), at £20 million, we have had to incur an additional outlay, due almost entirely to the war, amounting to £16½ million up to the end of the current year, and £25½ million including the estimated expenditure for 1918-19.

B.—Expenditure from special grants for education, sanitation, etc., and financial position of Local Governments.

“94. I give below a table similar to that in paragraph 111 of my speech last year, showing special grants made for these purposes from 1911-12 onwards and the extent to which they have been utilised.

(In thousands of pounds.)

	Total grants given (1911-12 to 1918-19).		Total expenditure (1911-12 to 1918-19).	Balance expected to be available on 1st April 1919.
	Recurring.	Non-recurring.	*Non-recurring.	
(1) Education	1,146	3,290	2,436	854
(2) Sanitation	245	1,785	1,217	548
(3) Medical relief, etc. . . . .	...	58	58	...
(4) Agriculture, etc. . . . .	...	332	295	37
(5) Grants for other special purposes . . . . .	...	1,556(a)	1,497	59
(6) Grants for general purposes (Discretionary grants). . . . .	...	667	407	260
TOTAL	1,891	7,668	5,910	1,758
<i>Add—Savings on recurring grants during foregoing period about</i>				883
Total amount expected to be available from special grants on the 1st April 1919				2,641

“In view of war conditions, we have again had to ask Local Governments to restrict drawings on their balances, which include the unspent remainder of these special grants. But any outlay thus postponed is merely deferred till normal times return.

“95. I have already reviewed in bulk the estimated Provincial receipts and expenditure for the current and the coming years. The total Provincial balances stood at £9·9 million on 1st April 1917 and are expected to amount to £12·1 million on 31st March 1919, the increase being due to excess of current revenue over expenditure in the present year. It will thus be seen that the provinces will have large scope for special beneficent expenditure when the war conditions which necessitate the conservation of their balances have passed away.

“Moreover, we have under consideration, for application after the war is over and in connection with the scheme of Constitutional Reforms, a material advance in the direction of separating Imperial and Provincial finance, which will give the provinces larger and more independent resources, with further powers of supplementing these by taxation when such may be found necessary.

“96. As I explained in connection with the Budget for the current year, we have taken steps to give the provinces more powers in the matter of specific items of expenditure, and we have under consideration, in connection with the scheme I have mentioned, the question of adding to these powers still further.

* Non-recurring figures only are given as the recurring grants are treated as having been fully worked up to, any savings obtained from those grants in particular years being added at the foot of the statement.

(a) Decrease as compared with last year's figures due to the Revised Estimate figure for the current year being less than the Budget forecast.

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C.—Railways (Capital Outlay).

“97. The following statement gives the figures of Railway capital expenditure, on State-owned lines included within the Railway programme, for the coming year and the four years preceding :—

	1914-15.	1915-16.	1916-17.	1917-18, Revised.	1918-19, Budget.
	£	£	£	£	£
Open Lines including rolling stock	10,584,800	8,864,200	1,236,500	2,364,300	3,667,900
Lines under construction —					
(a) Started in previous years	898,800	627,100	245,700	27,700	534,400
(b) Started in current year	...	...	496,500	757,700	...
Total	11,483,100	4,491,800	1,978,700	3,149,700	4,202,300

“98. The Revised Estimate for 1916-17 provided for a total outlay of about £1½ million as against a Budget allotment of £3 million. The actuals however come to nearly £2 million, as it was found possible, in the closing weeks of the year, to lay out more money than had previously been thought feasible.

“In the current year we provided £3·6 million, but are not able to work fully up to this owing to the extreme difficulty of obtaining materials from England. Next year we provide £4·2 million, which represents the limit of what can be expended having regard to the present special conditions.

“99. As was the case this year, it has not been possible to provide for the construction of any new lines, and our construction expenditure is almost entirely restricted to the completion of certain projects of military importance which were commenced during the current year.

“We propose to spend £3½ million on open line capital works and equipment. A large proportion of this expenditure will be devoted to rolling stock, and the remainder to works of open line improvement necessitated by a heavy and increasing traffic.

“100. The difficulties attendant on the raising of capital in the open market which I referred to last year still continue, with the result that new construction by Branch Line companies has now been altogether suspended, and work on certain projects already sanctioned, such as the Tinnevely-Tiruchendur and Trichinopoly-Pudukottai lines, has had to be deferred.

“The policy of proceeding as far as possible, *i.e.*, up to a stage short of actual flotation, with negotiations for the promotion of Branch Line companies after the war is being continued, and steps have also been taken to carry out surveys of new lines with a view to such projects being undertaken as soon as possible after the return of normal conditions.

“101. The following figures show the capital outlay on all State lines up to the end of each year from 1914-15, and the net return obtained after deducting working expenses and interest charges :—

[Capital and profit figures in thousands of pounds.]

	1914-15.	1915-16.	1916-17.	1917-18, Revised.	1918-19, Budget.
Capital at charge at end of each year	361,560	364,858	365,483	367,810	370,114
Working profit from railways excluding interest charges.	15,614	17,797	21,148	23,959	22,924
Percentage of same to capital outlay	4·32	4·88	5·79	6·52	6·19
Final working profit after meeting interest charges.	2,158	4,075	7,482	10,175	9,202
Percentage of same to capital outlay	·60	1·12	2·05	2·77	2·49

"102. The return on railway capital (excluding interest charges) was estimated in the current year's Budget at 5·47 per cent. We now estimate it at 6·52 in consequence of the large increase in net railway earnings which I have already dealt with in my review of the Revised Estimate. For next year we put it at 6·19 consequent on the smaller estimate of net earnings arrived at in the Budget.

"The charges for interest in the current and ensuing years work out to 3·75 and 3·70 per cent. respectively on the capital outlay, so that the final net profit on railways is about 2½ and 2¼ per cent. respectively. These interest charges include certain annuity and sinking fund payments which really go to the discharge of debt.

D.—Irrigation (Capital outlay).

"103. The financial position of our great irrigation undertakings may be gathered from the following table which brings up to date the information given in connection with previous Financial Statements. The figures are in thousands of pounds :—

Particulars.	1914-15.	1915-16.	1916-17.	1917-18 (Revised).	1918-19 (Budget).
1	2	3	4	5	6
<i>Productive Works.</i>					
Capital outlay to end of each year	35,777	36,003	37,120	37,630	38,104
Total receipts, including land revenue due to irrigation.	4,325	4,394	4,733	4,764	4,897
Total expenses, including interest on debt.	2,452	2,549	2,488	2,556	2,624
Net profit	1,873	1,845	2,245	2,208	2,273
Percentage of net profit to capital outlay.	5·24	5·04	6·05	5·87	5·97
<i>Protective Works.</i>					
Capital outlay to end of each year	5,345	5,853	6,166	6,513	6,897
Total receipts, including land revenue due to irrigation.	101	118	106	111	118
Total expenses, including interest on debt.	247	277	276	303	314
Net loss	146	159	171	192	198
Percentage of net loss to capital outlay .	2·73	2·72	2·77	2·95	2·87
<i>Minor Works and Navigation.</i>					
Direct receipts	254	267	317	313	306
Expenditure	986	869	781	878	983
Net loss	732	602	464	565	677

"104. The total length of main and branch canals and distributaries which had been constructed on irrigation works of all classes up to the end of the year 1916-17 amounted to 65,000 miles, and it is expected that this will have been increased by nearly 600 miles by the close of the present financial year. These channels command an area of about 52 million acres of culturable land, of which more than half was irrigated in 1916-17. It is estimated that some 25 million acres, or about a million acres less than last year, will be irrigated in the current year, the decrease being due to the copious monsoon, which diminished the demands on artificial irrigation.

"105. In addition to the works actually in operation, 34 major works are either under construction, awaiting sanction or being examined by the professional advisers of Government. These are designed to command an additional culturable area of approximately 27 million acres, of which it is estimated that 11½ millions will be irrigated annually, the capital cost involved being about £33 million.

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"106. Owing to the present financial stringency no new irrigation works of any magnitude were sanctioned during the current year. The investigation of several large projects was, however, continued, the most important being those relating to the Sukkur barrage on the Indus (Sind), the Sind Sagar Doab Canal (Punjab) and the Bhakra dam on the Sutlej (Punjab).

"107. The Triple Canal project in the Punjab was declared complete on the 31st March 1917. It is anticipated that there will be a saving on the revised estimate of this work, amounting to about £690,000, and at the beginning of 1917 over a million acres had already been irrigated from these canals.

"108. Development of important protective works in the Bombay Deccan continues to be hampered by difficulties in connection with the war, but good progress has been made on the Bhandardarra and Bhatgarh dams, as also on the Nira Right Bank canal.

"Work on the Upper Swat canal in the North-West Frontier Province is practically complete, and the construction estimate will be closed on the 31st March 1918. The Tandula canal in the Central Provinces is also rapidly approaching completion.

"109. In my speech of last year I referred to a project for the utilization of a portion of the water of the Sarda river in the United Provinces. The Local Government has recently sent up a comprehensive scheme for the utilization of the whole supply of the river in extensions of irrigation in Rohilkhand and Oudh. The estimated direct cost of the necessary works is over £5 million, and it is anticipated that the project would add more than 2 million acres to the irrigated area of the province.

E.—Delhi Expenditure (Capital outlay).

"110. The expenditure during the current year under Head 51 is expected to amount to about £250,000 (Rs. 37 lakhs) as compared with a budget provision of £267,000 (Rs. 40 lakhs). The reduction is due to credits received for sale or transfer of materials to heads other than 51.

"During the current year the aim has been to confine operations to such work on the central buildings and other features of the New City as can be carried out without the use of materials the price of which has been seriously affected by the war. A moderate rate of progress has been maintained in the case of Government House, the Secretariat buildings, the Viceroy's Court, and the great Place. Work has been put in hand on the construction of the Central Vista and on the erection of residential quarters for Indian clerks. A start has also been made on such portions of the storm water drainage scheme as do not involve the use of imported material. The larger schemes of sanitation, water supply, electric lighting and irrigation, which require the use of imported materials, have been left untouched. Considerable addition has been made to the stock of materials and tree planting operations on the roads have been pushed on.

"It is expected that £267,000 (Rs. 40 lakhs) will be needed to carry on work on similar lines in 1918-19.

Retrospect and Conclusion.

"111. This is the last Financial Statement which I shall have the honour to present to the Council. My tenure of office as Finance Member is drawing to its end, and it has been a particularly difficult and arduous one. When I took up my post I hoped that I might share the good fortune which my distinguished predecessor enjoyed in such ample measure. But *dis aliter visum*: in my first year I was beset with troubles arising out of the bank failures in 1913 in Northern India and an unsatisfactory monsoon; soon after that the war came upon us; and since then I have had to face a constant succession of difficult and abnormal circumstances.

"I propose now to give a short summary of the most important events which have marked my term of office, for I think it is useful to have a retrospect of this sort, as showing us more clearly how we stand, not merely from year to year but taking a backward glance over the past.

"112. I must ask the indulgence of the Council if, in this presentation of some of the events of the years during which I have had the honour of administering the finances of India, I permit myself to touch a personal note. When

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in July 1913 I took up the post which I shall ere long relinquish, I envisaged various problems the solution of which I hoped to be able to advance during my tenure of office. Like almost all financial problems they were closely inter-related, and progress in any one direction was bound to react on the general situation as a whole and facilitate the solution of the remainder.

"The first of these questions arose out of the periodical money stringency which is a characteristic of the busy trade months of the year. The problem is a complex one, and not capable of solution by the application of any single method. But it can be materially influenced by the more liberal release of Government funds at the busy time of the year so that these may then be available for trade. In presenting my first Budget, after a few months' tenure of office, I was able to inform the Council that we had secured the assent of the Secretary of State to a policy of making loans from our balances to the Presidency Banks during the busy seasons. As I then explained, it can only be through the agency of these Central banking institutions that Government can hope to secure an effective and wise application of such resources as they can make available at times of stringency. By continued action in this direction, as also by the creation and maintenance of more intimate relations with these leading institutions, it was my hope that it might be possible to help in the further development of the trade and commerce of the country.

"A second set of questions was connected with our currency note system. The expansion of our note circulation, satisfactory as it was, was still impeded by certain restrictions. Apart from any other consideration, it was in any case imperative in a country like India, where the cheque is not likely for many years to attain any large vogue up-country, to encourage the use of the currency note as a medium of exchange.

"Thirdly, as I indicated in connection with my first Budget, I recognised that if, as I hoped, my tenure of office as Finance Member was to see a vigorous programme of capital expenditure on Railways and Irrigation, a courageous policy of borrowing in India was indispensable. It was clear that the traditional method of relying solely on a handful of wealthy investors or on the established banking institutions would no longer suffice; that it must give way to a policy which would establish a direct *nexus* between the State and the small investor; and that the attraction to fructifying purposes of the small savings of small people must form one of the objects to which our efforts should be bent.

"113. Let me now endeavour to indicate briefly how far these hopes have been realised, and how far the events of the last three and a half years of war have assisted or impeded their realisation, or have compelled their modification or postponement.

"I am able to record with satisfaction the measure of success which has attended my efforts to demonstrate the readiness of Government to secure, by a more liberal utilisation of its funds, relief to commercial and financial interests in times of stringency. It has been my consistent policy to give proof of this desire by making temporary loans (as has been done on occasion) to the Presidency Banks; by leaving in deposit with them, till actually required by us, the proceeds of our public loans; by avoiding as much as possible the lock-up of funds in our reserve treasuries; and by the maintenance with the Presidency Banks of balances at all times considerably, and at certain periods far, in excess of the standards previously observed. It is largely owing to action of this character that it has been possible to secure the money market against the strain to which our war finance must otherwise have exposed it, and in particular to raise the large sums we have recently obtained by way of loan without materially inconveniencing the market. A striking feature of our financial operations in the last year has been the way in which money has tended to return to the larger trade centres, in other words the extent to which there has been an increase in the supplies of floating capital in these centres. It would be premature to attempt to analyse the causes of this change in Indian money market conditions, but I think it can reasonably be hoped that this change has come to stay, and that one result will be that it will tend to eliminate to some extent the excessive seasonal stringency which has been in the past a characteristic of our money market during certain months of the year.

"114. It also justifies the hope that greater dependence may hereafter be placed on the Indian money market for the raising of the funds necessary for the

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development of our railway and irrigation works, and it will likewise pave the way for the solution of the somewhat kindred question of the greater development of banking throughout the country. Let me here gratefully record my acknowledgment of the response which the Presidency Banks have extended to my desire to see the establishment of cordial and close relations between Government and them as representatives of the financial interests of the country. I have always looked on their Secretaries as non-official comrades, to be freely consulted in respect of loans and other matters affecting the money market, and I have met with ready and very valuable response in such cases.

"115. An even greater degree of success than I dared hope has attended our efforts to secure the expansion of our currency note system. In the early months of the war, as the Council will recollect, the general dislocation of trade and finance brought about a temporary, though successfully met, run on our notes, while the restoration of confidence which followed on free and unrestricted payments in silver, pointed to the general soundness of our system and to the possibility of its further expansion by increases in the facilities for encashment. Accordingly, as I explained in my speech introducing the Financial Statement for 1916-17 (paragraphs 108-109), we proceeded with measures to secure the widest facilities for the exchange of silver against notes, not merely, as the law requires, at special currency centres, but at all district treasuries; while we also made arrangements with the Presidency Banks for the issue and prompt encashment of notes at a number of their branches.

"The results of these measures have been most gratifying, not only because they have made our currency notes more popular, but because they have enabled us to rely with greater boldness on this portion of our financial system to meet the added and continually growing demands on Government funds for the carrying on of the war and of our trade. Taking the figures as on 1st February, our gross circulation has increased, in round figures, from £42½ million in 1914 to £70 million in 1918; while the active circulation *i.e.*, that portion of the note circulation which is held outside the reserve treasuries and the head offices of the Presidency banks, has grown between the same dates from £34½ million to £54½ million.

"We have now initiated the experiment of issuing small notes for Rs. 2½ and Re. 1 which, as I have already said, promise to prove a material success. The popularity of these notes will, I trust, increase as time goes on.

"116. The metallic portion of our Paper Currency Reserve represented on the 1st February nearly 53 per cent. of the active circulation, which compares with a 96 per cent. proportion on the same date in 1914. This evidences the fact that we have, under the stress of war finance, travelled far beyond the recommendations of the Chamberlain Commission in regard to the composition of the Reserve. The total invested portion now stands at £41 million as compared with £9·3 million in 1914, and we contemplate, as I have already explained, a further increase to £57 million. With the return of normal conditions, the permanent composition of the Reserve will need to be considered with reference to the recommendations of the Commission; for the investments in British Government Treasury Bills made in recent times are only as a temporary war measure. Meanwhile, as regards the pre-war holding of consols in the Paper Currency Reserve, we have provided by the establishment of a depreciation fund against loss in present value as compared with their purchase price.

"117. Equally gratifying are the results which have attended our efforts in relying on the Indian market for our capital borrowings. In 1913-14, allowing for repayment of maturing obligations and including the borrowing transactions of railway companies managing State owned lines, we raised in all £4·7 million, of which £2·8 million were borrowed in England. In the current year, as in 1916-17, we have kept completely out of the London market. Indeed, we have gone further. We have this year discharged £2 million of previous sterling debt, while the sum total of our net Indian borrowings has reached what would have been in normal times a great figure for any country, and is a gigantic one for us, *viz.*, £65 million. I readily recognise that the borrowings of the current year have been abnormal, and specially stimulated by the patriotic consideration that—except as regards Treasury Bills, which are a new feature in Indian finance—the proceeds were to be handed over to His Majesty's Government for war purposes. It is also the case that the large and constant war disbursements by Government during the last two years have facilitated our borrowing

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operations. But even making allowances for these special features, there is a most striking contrast between the borrowings of 1917-18 and those of 1913-14. And if we take the figures for a wider period—for the four years ending 1913-14 as compared with those for the four years ending 1917-18—and omit from the latter our short-term Treasury Bills, the contrast is still very marked. In the first period our net borrowings were £4·8 million in England and £5·9 million in India—in all £10·7 million. The second period gives a total of £49 million, of which all but £3 million have been raised in India.

“Next year again, as I have already informed the Council, we hope to draw on the Indian loan market to the extent of at least £47 million in respect of our war borrowing and fresh Treasury Bills, the latter representing the discharge value of the bills outstanding at end of 1917-18.

“118. We have further opened up new borrowing sources, and I refer here specially to the postal sections of the last three loans and to the cash certificates. The former method of utilising the Post Office to get into touch with the small investor was introduced for the first time in 1915-16 when it gave us £½ million; while in 1916-17 it yielded a little less. But this year the postal section of the War Loan produced nearly £3 million, a larger sum than we raised by ordinary methods in any year between 1907-08 and 1913-14; while the cash certificates will have given us in this first year of their issue about £6½ million (gross), a result exceeding those of any of our public loans before the present year. In all, in the three years since we started borrowing through the Post Office, we have been able, through this innovation, to attract funds to the extent of over £10 million, the bulk of which is new money which would not otherwise have found its way into the Government loan chest and has to a considerable extent been drawn from hoards and current savings. I should like in this connection to express to Sir William Maxwell and his Post Office staff my warm appreciation of the zeal and success with which they have co-operated with the Finance Department in the working of these new schemes.

“119. Some portion of the funds thus obtained no doubt represents money which has been deflected from the ordinary postal savings bank deposits, and in so far as this cause accounts for the decrease in these latter deposits as compared with the pre-war figures, there is no need to regret diversion to a more permanent form of investment. Post Office deposits, it will be remembered, suffered considerably from the dislocation caused by the outbreak of the war, and though the ground lost has not yet been fully recovered, the present figure (£10·4 million) is already somewhat in excess of the amount at the close of 1914-15. This result has been facilitated by an increase in the permissible limit of individual depositors' holdings which was introduced in the first year of my tenure of my office.

“120. In reviewing the events of the last four years, I have unfortunately to record a decrease in the provision for capital expenditure. In 1913-14 this provision was £1½ million: in the year which is coming to a close we expect to spend less than a third of that amount, namely, £3·9 million. Irrigation capital outlay has dropped from £1·3 million to £½ million, owing to the completion of large projects, such as the Triple Canal scheme in the Punjab, and to the fact that further projects involving heavy outlay are not yet ready for execution. Under Railways the provision for capital outlay has fallen from £12·8 million in 1913-14, the highest figure yet touched, to £3·1 million in the current year and £4·2 million in the Budget for 1918-19. This is, of course, a consequence of the great struggle in which the Empire is now engaged. The war imposes on us the necessity for conservation of our resources, and it also precludes us, even if we had the funds, from obtaining the material we should require for a large railway programme. I have always regarded these necessities with profound regret. In connection with the Budget for 1914-15 I explained the efforts we had then made to keep the railway programme up to a standard of £12 million, and I had hoped that if times had remained peaceful and prosperous we should be able during my tenure of office to go beyond that figure; but here again Fate has willed otherwise. One of the main problems which will face my successor when peace returns will be consideration of the way to find money for making up the necessary lee-way under railways, more especially in view of the strain to which our present equipment has been exposed by the heavy traffic demands, and the impossibilities of regular and

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thorough renewal of lines and rolling stock. So far as it has been in my power I have endeavoured to assist in the solution of this problem. The special investment of £20 million in Home Treasury Bills, to which I have referred in paragraph 84, has been made largely with a view to this contingency, so that it may provide a means of meeting the liabilities which will in one way or another come upon us after the war is over.

"121. I will now make a few remarks on the various financial problems which have beset us during the last 3½ years. Briefly, the history of our war finance may be divided into two periods. The first period was marked, in India as elsewhere, by a general dislocation of trade and finance. We experienced a serious run on our savings bank deposits, and some panic encashment of our currency notes. There was a considerable demand for the remittance of money to London, and sterling drafts on London to the extent of £8½ million had to be sold between August 1914 and January 1915 to maintain the exchange value of the rupee. This temporary want of confidence soon passed away, though it left as a legacy £14 million of temporary debt which we had to raise to meet our current requirements, *viz.*, £7 million from the Gold Standard Reserve, and £7 million raised by the Secretary of State in India Bills in lieu of a permanent loan of £4½ million which he had contemplated when the Budget for 1914-15 was framed. But it was not until the autumn of 1915, that is to say when rather more than a year had elapsed since the outbreak of the war, that the tide set in which was to bring with it entirely different, and by reason of their novelty peculiarly difficult, problems.

"122. The first period, then, was one calling for the consolidation and conservation of our resources. With a serious decline in the values of and demand for our leading exports, with prices of foodstuffs at an abnormally high level, with trade in a state of general depression, and with public confidence only lately recovered from the first shock of the war, prudence clearly dictated postponement of additional taxation in spite of a considerable temporary deficit. Meanwhile we did what we could in the form of indirect assistance to the mother country. During 1915-16 we reduced our net Home borrowings for capital expenditure from an estimated sum of £5½ million to about £2 million, and we also paid off £3 million of our borrowings from the Gold Standard Reserve. The object which we set before ourselves during the first period of our war finance was to abstain as far as possible from drawing on the resources of the London market, and to make provision, by the curtailment of expenditure in this country, to meet possible military contingencies.

"123. By the autumn of 1915, the effects of the dislocation which set in on the outbreak of the war had passed away. A considerable demand made itself felt, mainly as a result of war conditions, for the products of this country, and the export trade, which had been seriously curtailed, began to show a marked and growing revival. The circumstances attending this restoration of active trade conditions rendered possible not only a continuance of the policy of abstaining from borrowing in London, but also the imposition of additional taxation in India. Accordingly we proceeded to strengthen our position by a programme of taxation, introduced in the Budget of 1916-17, which included the revision of our import tariff, save as regards the important item of piecegoods; the imposition of new duties on the exports of jute and tea; a small addition to the salt tax; and the enhancement and graduation of the income tax. And as a logical sequence of the last mentioned measure, the Council has now before it a Bill for the material improvement of our Income Tax machinery. We abstained from any fresh borrowing in England and paid off the £7 million of India Bills referred to above (paragraph 121) as well as some India Bonds which fell due for redemption in the ordinary course. We also cleared off the £4 million which we still owed to the Gold Standard Reserve.

"124. We had now cleared the decks for further action, and in 1917-18 we felt able to take the step, which we had always hoped we might be in a position to take, of making a direct pecuniary contribution by India towards the prosecution of the war. As I have said, we had now discharged the temporary debt liabilities which we had been compelled to undertake by the dislocation of our finances caused by the war. The additional taxation imposed in the previous year had materially added to the strength of our finances, while the insistent demand for

exports from this country made it clear that we need not anticipate the prejudicial effect on exchange which would otherwise have been caused by borrowing a large amount in this country for the purpose of remittances to London. We were thus able, with general approval, to offer a special capital contribution of £100 million to His Majesty's Government towards the expenses of the war, and to meet the recurring charges which this offer entailed by the imposition of additional taxation estimated to produce at the outset £3½ million, the balance being provided by the surplus revenue which was accruing to us through the taxation of 1916-17. The new taxation took the form of :—

- (a) A super-tax on incomes.
- (b) An increase in the export tax on jute.
- (c) A small surcharge on railway goods traffic.
- (d) Raising of the import duty on cotton piecegoods to the general tariff rate, while maintaining at the lower previous level the excise duty on local cotton manufactures.

“This last measure had the effect of removing, at any rate in large part, a grievance which had been felt for many years in India.

“125. These new sources of revenue account in considerable measure for the fact that our Imperial revenue receipts in the current year are about £22 million more than in 1913-14. Of this increase about £9½ million is due to the additional taxation of the last two years, and of the remaining £12½ million about two-fifths is accounted for by increase in net profits on Railways, which have grown from about £4½ million in 1913-14 to £10 million in 1917-18. Concomitantly with this increase in our revenue, we have, of course, to record an increase in Imperial expenditure, which is now £19 million higher than the figure for 1913-14. £9 million of this accrues under Military charges and is almost entirely due to the war, and £6 million represents the interest and sinking fund charges in respect of our war contribution of £100 million to His Majesty's Government. There is also an increase of over £1 million under Political charges, due to the war, including special expenditure in Persia and the cost of militia employed on the North-West frontier. Put in other words, a growth of £16 million in what may be called war charges has been met to the extent of £9½ million by taxation, while the balance has been found from other expansion of revenue.

“126. This brief review of our war finance would be incomplete without reference to the magnitude and difficulty of our ways and means operations in the last two years. I have, however, dealt at some length with this matter in an earlier portion of my speech, and I need only now cite certain salient figures which will show how heavy this burden has been. War expenditure for His Majesty's Government and analogous items have involved us in a net outlay in India of £128 million during the last 3½ years. At the same time, we have had to meet heavy Council drawings representing the demand of trade for fresh funds in this country. These increased from £20 million in 1915-16 to £33 million in 1916-17, and will this year amount to about £35 million.

“Repayment in respect of these transactions has been in England, and to find the requisite funds for our disbursements here has been a matter of great and growing difficulty and anxiety. A large portion of the sums reimbursed to us in London by His Majesty's Government on account of war outlay has been re-lent to them for war purposes by investment in their Treasury Bills. As I stated in an earlier part of my speech, these investments, which are of course quite apart from our gift of £100 million, will amount to £67 million at the end of the current year, while the further investment from our Paper Currency Reserve contemplated next year will add £16 million more.

“127. I have already described the present composition of the Paper Currency Reserve, and need only add now that our Gold Standard Reserve at present stands at £34 million against £25½ million in 1913-14. This increase is, of course, mainly due to the coinage of silver in the last few years. Every effort has been made to obtain as ample supplies of silver for India as were available, and our recognition of the probable requirements in this respect was made at a date considerably earlier than

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is generally known. In all, we have in the last four years coined £33 million worth of fresh rupees, which is double the amount coined in the similar period ending with 1913-14. That none of this coinage has been redundant is shown by the prompt way in which it has been absorbed.

"128. It will be seen from these figures and remarks how much ground we have traversed during the last few years; and what strikes one first and last is the way in which the war has brought out the financial strength of India. No one could have imagined, for example, three years ago that we should be able, with a moderate increase of taxation, to offer His Majesty's Government £100 million as a special war contribution over and above the additional charges which the war has entailed on our own military budgets; that we could borrow in India anything like as much as we have done, raising, for example, more than one-third of the £100 million war contribution by direct loan in this country in a single year; or again, that we should have found it possible to meet, as we have done, the enormous demands for war supplies to His Majesty's Government and the immediate outlay they have involved. Generally favourable monsoons (taking the period as a whole and India as a whole) have assisted in bringing about this result. Our trade conditions, again, have been wonderfully prosperous, considering all the adverse circumstances which had to be faced, and have indeed led to the paradoxical result that the pecuniary resources of the Government of India have had to be strained to the utmost to meet the demands on us necessitated by the Secretary of State's Council drawings for the assistance of trade, coming as these did on the top of large war expenditure on behalf of the Home Government repaid in London.

"129. My present speech and previous utterances of mine have given the Council some idea of the difficulties and anxieties which the war has brought about in the realm of Indian finance and the special expedients which had to be resorted to in order to meet a succession of most difficult and constantly changing situations, based on circumstances for which there was no precedent in the period of *pre-bellum* finance. I say *some* idea advisedly, because transactions which can be very briefly described in our annual Budget chronicles or in Press *communiqués* have often been the fruit of long and detailed labour and thought. For example, as regards the action taken in respect of the amount of the Secretary of State's weekly Council drawings and rates of exchange, communications exchanged at various times between us and the India Office would fill a respectable little book. I may say without the least exaggeration that since the war began I have never been free from acute anxieties in regard to one or more important matters with which the Finance Department is directly or indirectly concerned, and decisions have often had to be taken at very short notice. Looking back with present knowledge on this crowded past, I do not, of course, claim that everything that has been done was done in the best possible way.

'That man was vain, and false as vain,
Who said, were he ordained to run
His whole career of life again,
He would do all that he had done.'

"And this applies equally to the short official life of the holder of a high office such as mine, especially in the circumstances of this kaleidoscopic war time when, in the financial sphere as well as in the military, the events of one year mock at the fears or hopes of the year before. But I have done my best to serve India in these troublous times; and I think I can claim that her interests have not suffered at my hands; that the difficulties which beset us have been adequately met; that our financial structure has well withstood the storms which have beaten upon it; and that efforts have been successfully made to strengthen its walls and foundations.

"130. I should like to add that such credit as may be accorded to me in respect of the policy and actions of the last few years must be shared by my able lieutenants in the Finance Department. I owe a great deal, as I have always acknowledged, to their loyal and efficient co-operation, and they, in their turn, have been most ably seconded by those who work under them. I am indeed proud of the Department I am shortly to quit and in which I have myself served in a subordinate as well as in a directing capacity.

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"I must also acknowledge with grateful thanks the constant help and support I have received from Your Excellency and Lord Hardinge, and from my colleagues, past and present, on the Executive Council. For, though the fact seems to be rather ignored in some quarters, while the Finance Member has to propose action in respect of important questions of financial policy, the final decision, on this side, rests with the collective Government.

"Lastly, I have to acknowledge with gratitude the support I have received from my non-official friends in the Legislative Council. Some of them have every now and then differed from me in regard to particular matters, but they have given me most welcome and helpful support in respect of financial policy as a whole, recognising that I love India and that her interests have ever been foremost in my thoughts."

THE INDIAN PAPER CURRENCY (AMENDMENT) BILL.

1-8 A.K.

The Hon'ble Sir William Meyer:—"My Lord, in introducing the Financial Statement, I have explained the circumstances which have necessitated the Bill which I now move for leave to introduce; and I would invite special reference to paragraphs 38—40, 45—46 and 68—71 of my speech where I have explained the measures required in order to enable us to meet the war expenditure which we have to incur on behalf of His Majesty's Government this year and next, and the Secretary of State's Council drafts for this year. Also to paragraphs 79 and 80 dealing with our metallic holdings in the Paper Currency Reserve. So I need only add some supplementary remarks now.

"At the commencement of the war our investment power against the Paper Currency Reserve amounted only to 14 crores of rupees, namely, 10 crores in India and 4 crores in sterling securities. The Chamberlain Commission recognised that this was an unnecessarily low proportion of the Reserve and made proposals for an increase of investment which have had to stand over for consideration, as permanent measures, till after the close of the war. In the meantime, however, the special circumstances of the war have compelled us from time to time to special temporary legislation. We began (Act V of 1915, as modified by Act IX of 1916 and subsequently embodied in the consolidating Act XI of 1917) by increasing the invested limit to 20 crores, the additional 6 crores being investible either in India or in England; but, as a matter of fact, the additional investment has been made in London in British Treasury Bills. To this 20 crores we have had from time to time to add further investments, and by our last Act, No. XIX of 1917 which superseded the Ordinance of the previous April, this additional amount, which must be held in British Treasury Bills, is fixed at 42 crores of rupees.

"It is now proposed, in order to meet our anticipated needs next year, to take powers to increase the permissible specific investment against British Treasury Bills by 24 crores (£16 million), our total powers of investment being thus raised to a total of 86 crores. The present Bill, however, only mentions 660 million rupees (66 crores) by specific amendment of section 2 of Act XIX of 1917, because, as I have just stated, the other Rs. 20 crores are provided for by previous enactments. Of the total, 86 crores, 14 crores represents our permanent pre-war investment: the rest is and will be a temporary investment in that the Acts authorising it are temporary measures which will lapse six months after the war, the present Bill being of the same character. When the war is over, we shall have to consider, with reference to the recommendations of the Chamberlain Commission, what our permanent methods in respect of the Currency Reserve shall be.

"Meanwhile, as I have explained on previous occasions, we cannot, while the war lasts, embarrass the Home Government by meeting our drafts on the Paper Currency Reserve here by what would be the

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normal expedient in peace time, the acquisition of an equivalent amount of gold in London, since this would cause the earmarking of a large stock of gold which it is very important for Imperial purposes that the Bank of England should continue to hold in a fluid shape. We, therefore, adopt the next best course, that is, investment in short-term Home Treasury Bills which can be readily realised if circumstances should require this.

“The increase in the investment is, as I have explained in my speech introducing the Financial Statement, justified by the great growth which has taken place in our note circulation, and also by the additions which we have been able to make to our holdings of gold in India in the last 12 months. The figures in respect of the active circulation of our notes (*i.e.*, excluding the notes held by the Presidency Banks at their head offices or in the Government Reserve treasuries) show an increase from about 52 crores on the 1st February 1914 to 82 crores on the same date in the current year.

“It is not, however, our intention to take full advantage at once of the additional powers now asked for, but only to make investments gradually from time to time to the extent to which these prove to be necessary. But we have thought it better to apply to Council now for the powers which, so far as we can foresee, we are likely to require during the next 12 months, instead of taking these powers by instalments only when we actually want them, as in that case the Council might not be sitting at the requisite time, and it would consequently be necessary to proceed by an Ordinance in the first instance.

“I now move for leave to introduce the Bill.”

The motion was put and agreed to.

The Hon'ble Sir William Meyer :—“I now introduce the Bill. It is a very little one. The first clause gives it a name, and the second clause amends one section of the Indian Paper Currency (Amendment) Act of 1917 in the way I have already indicated.

“I move that the Bill, together with the Statement of Objects and Reasons relating thereto, be published in the Gazette of India in English.”

The motion was put and agreed to.

His Excellency the President :—“Before I adjourn Council I wish to call the attention of Members to the fact that under our new rules the Financial Statement, which has just been presented to Hon'ble Members, will come up for formal discussion on the 8th of March. On that date the discussion will be confined to observations on the Statement as a whole or any question of principle involved. Under our new system, it will be necessary for me to keep Hon'ble Members within the scope of our Rules, and I trust Hon'ble Members will, in preparing the speeches to be delivered on the 8th, bear this in mind and so avoid the unpleasant necessity of my having to call them to order. The very extended field over which Sir William Meyer has travelled, will, I think, afford Hon'ble Members abundant material for their speeches and the fullest scope for the expression of their views. I now adjourn Council to Tuesday, the 5th March, at 11 A.M.”

The Council then adjourned to Tuesday, the 5th March, 1918.

A. P. MUDDIMAN,

*Secretary to the Government of India,
Legislative Department.*

DELHI ;

The 7th March, 1918.