

*Thursday,
1st March, 1917*

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

Vol. LV

March 1917

ABSTRACT OF PROCEEDINGS
OF
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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
Thursday, the 1st March, 1917.

PRESENT :

His Excellency BARON CHELMSFORD, P.C., G.M.S.I., G.M.I.E., G.C.M.G., Viceroy
and Governor General, *presiding*, and 62 Members, of whom 54 were
Additional Members.

QUESTIONS AND ANSWERS.

The Hon'ble Honorary Captain Ajab Khan, Sardar Bahadur asked :—

1. "Will the Government be pleased to state if there are provided in every cantonment in India and in the Colonies where Indian units are stationed, proper burial grounds for Mussalmans and cremation places for Hindus and Sikhs? If none are provided, will the Government be pleased to consider the desirability of providing them?" Burial grounds for Indian soldiers.

His Excellency the Commander-in-Chief in India replied :—

"The provision of burial grounds for Mussalmans and cremation places for Hindus and Sikhs in cantonments in India is at present mainly a matter for the community concerned. When such places are compulsorily closed, fresh ones are provided at the expense of the Cantonment Fund concerned. The question of providing such places for Indian soldiers by the State will be considered—in fact it is now being considered. We have no information as to what is done in the matter in the Colonies."

The Hon'ble Honorary Captain Ajab Khan, Sardar Bahadur asked :—

2. "Is it a fact that the soldier clerks of the Indian units are under certain disabilities, *e.g.*, inadequate allowances, poor future prospects in life, and a small pension on retirement? If so, will the Government be pleased to remove the disabilities and improve their prospects?" soldier clerks of Indian units.

[His Excellency the Commander-in-Chief in India; Mr. Kamini Kumar Chanda; Sir Reginald Craddock.] [1ST MARCH, 1917.]

His Excellency the Commander-in-Chief in India replied:—

"Soldier clerks in Indian units are paid 'extra-duty pay' from contract allowances, and not by Government direct. The amount of 'extra-duty pay' allowed varies in different regiments, and is fixed at the discretion of the Commanding Officer. The whole question of clerical allowances for the Indian Army is at present under consideration."

The Hon'ble Mr. Kamini Kumar Chanda asked:—

Action taken against Mrs. Besant by the Bombay and Central Provinces Governments.

3. "(a) Was the Government of India consulted by the Government of Bombay and the Hon'ble the Chief Commissioner of the Central Provinces before action was taken against Mrs. Besant?"

(b) Was it any public or private speech or any published writing of Mrs. Besant which formed the basis of action against her? If so, will Government be pleased to specify the same?"

(c) Is the Government aware that, since action was taken against her as aforesaid, she visited Lucknow and Calcutta and other places where she delivered speeches on political subjects among other matters? Has any complaint been received in regard to any such speech?"

(d) Will the Government be pleased to consider whether they should not now suggest to the Local Governments concerned the withdrawal of the orders passed against her?"

The Hon'ble Sir Reginald Craddock replied:—

"(a), (b) and (d). A copy of the statement* made by the Hon'ble Mr. Slocock in reply to a question in the Central Provinces Council is laid upon the table.

It will be seen that action was taken against Mrs. Besant in pursuance of the Chief Commissioner's policy to discourage violent political agitation and inflammatory speeches as being prejudicial to the public safety at a time like the present. The Government of Bombay were actuated by similar reasons, and, in both cases, the Government of India were consulted and gave their approval. The Government of India were and are influenced in giving that approval by the general trend of Mrs. Besant's writings and speeches, and not by any particular article or utterance. They do not propose to suggest to the Local Governments concerned the withdrawal of the orders against Mrs. Besant.

(c). The Governments of Bengal and the United Provinces have not made any official report to the Government of India regarding Mrs. Besant's speeches in those Provinces."

The Hon'ble Mr. Kamini Kumar Chanda asked:—

Appointment of natives of Assam in the Comptroller's Office, Assam.

4. "(a) Will the Government be pleased to lay on the table a statement of appointments, temporary and permanent, made in the office of the Comptroller of Assam since the reconstitution of the Province from 1st April 1912, showing the appointments given to *bona fide* natives of the Province?"

(b) Is it not a fact that such appointments in the office of the Accountant-General, Ranchi, are directed to be filled up by *bona fide* natives of the Province of Bihar and Orissa?"

(c) Will the Government be pleased to direct that a similar reservation in favour of *bona fide* natives of Assam be made for appointments in the Comptroller's office at Shillong?"

[1st MARCH, 1917.]

[*Sir William Meyer.*]

The Hon'ble Sir William Meyer replied :—

“(a) Since 1st April 1912, 32 permanent and 35 temporary appointments have been made in the office of the Comptroller, Assam. Of these, 16 and 27 appointments, respectively, have been filled by *bonâ fide* natives of Assam.

“(b) No such orders have been issued by the Government of India. In accordance, however, with the accepted policy of the Local Government, the Accountant-General, Bihar and Orissa, has been endeavouring to recruit *bonâ fide* natives of the province for his office, as far as possible.

“(c) Other things being equal, preference is given by the Comptroller, Assam, to the natives of the province in recruiting men for his office. The Government of India do not think it desirable to interfere with the discretion now vested in Accountants-General and Comptrollers in the matter of recruiting men for their establishments, and they consider that a rigid instruction, such as that desired by the Hon'ble Member might be prejudicial to efficiency especially in the case of a small province like Assam.”

FINANCIAL STATEMENT FOR 1917-18.

Introductory.

The Hon'ble Sir William Meyer :—“ My Lord, I rise to present the Financial Statement for 1917-18. As usual there will be no debate to-day; and before we discuss the Financial Statement itself it will be necessary to proceed with some urgent legislation which I shall presently have to introduce. We shall, however, begin the discussion stage on the 7th March. The figures in the Financial Statement will subsequently undergo such amendments as may be required by our later information or suggested by the discussions in Council. The Budget in its final form will be presented on the 21st March, the usual closing debate taking place on the 23rd.

“ 2. We must assume for Budget purposes that the war will continue throughout the coming year. This, of course, affects us prejudicially in many ways, some of which I shall have to refer to in detail later on; while as regards our estimates, I must repeat what I said last year, that the difficulties in framing accurate forecasts are very great in view of constant and unforeseeable changes of circumstances. As I said two years ago, we are really groping in the dark and can only go as carefully as possible.

“ 3. The situation which I have now to describe is complex, though accompanied by many satisfactory features. The general revenue position is excellent, and in particular, our railway receipts have far exceeded the figure estimated in the current year's Budget. Our postal savings bank deposits, instead of declining, as we feared when that Budget was framed, have shown a welcome, though not entirely steady, recovery. Our currency note circulation has enormously expanded. On the other hand, our sea-borne trade, though it has improved in value, has been hampered throughout the year by difficulties of freight; and the altered position in regard to exchange, which has now completely lost the tendency to recurrent weakness shown in the first period of the war, has confronted the commercial community and ourselves with difficulties and problems which probably only the stress of war could have brought about.

“ 4. The satisfactory revenue position is the direct result of an exceptional monsoon. The agricultural outlook at the beginning of the year was unpromising, and there was even distress in some tracts. The south-west monsoon in 1916, however, was abnormally bountiful, and though the winter rains were in marked defect in January, good and useful falls were received in the early part of February almost everywhere except in the Punjab and the North-West Frontier Province. Thus over India generally the prospects of crops, other than wheat, are exceptionally good, except in limited areas in Assam, Bengal, Bihar and Orissa and Madras, where some damage has been sustained from excessive rain or storms. The wheat crop is suffering in unirrigated areas, especially in the Punjab. That province, however, received unusually heavy rainfall in the early part of October, and is thus in a better position to withstand the cold-weather failure.

[*Sir William Meyer.*]

[1ST MARCH, 1917.]

" 5. Our trade conditions are still governed by the depressing effects of the war to which I referred in my last year's speech, notably scanty and dear freight, and restrictions which it has been necessary to impose on exports and imports with reference to military and political considerations: also, of course, the stoppage of commercial intercourse with enemy countries and tracts under hostile occupation. In his Trade Review for 1915-16 the Director of Statistics brought out the fact that, comparing the calendar year 1915 with its predecessor, the larger portion of which was under peace conditions, the relative falling-off under imports was larger in India than in any other country affected by the war except Russia; while our exports also showed a material decrease, as against a large expansion in the case of Canada, Japan and Egypt, to take only countries within the belligerent sphere. There was, however, some recovery in the closing months of the official year 1915-16, and the total sea-borne trade of India for that year was much the same as in 1914-15 (£238 million against £236 million), whereas in 1913-14, when it reached the highest point hitherto attained, it amounted to £327 million.

" Taking the current official year so far as figures are available, *i.e.*, to the end of December, there has been a considerable improvement over the corresponding period in 1915-16, exports of private merchandise, including re-exports, being about 34 crores better and imports about 15 crores higher, while the total balance of trade, after taking into account net private imports of treasure, may be roughly put at 58 crores in favour of India. It may be said indeed that our trade transactions are now once more reaching the figures which prevailed just before the war. It must be remembered, however, that this is due in considerable part, and especially as regards imports, to a large increase in prices, and that quantities would still show a material decrease. The gap caused by the cessation of trade with enemy countries is being filled by larger trade with the United States, Japan and Russia, and by a material increase in our exports to the United Kingdom.

" The chief increases under exports have been in respect of raw cotton and jute manufactures, rice, pulses, seeds, hides and skins, and cotton manufactures. But these have been counterbalanced to some extent by decreases under wheat and tea, the tea exports having been specially retarded by the lack of freight. The increase under imports occurs mainly under cotton manufactures—principally piecegoods, while there are decreases under sugar and railway plant and rolling stock.

" We must be prepared, however, for some check to this upward movement owing to restrictions upon imports now found necessary in the United Kingdom, of which the recently announced limitation upon jute and tea imports is an example bearing materially upon our trade and our revenue alike.

" As regards the geographical distribution of our trade, roughly speaking the imports from and exports to other portions of the British Empire practically balance each other, and the surplus of India's exports over her imports occurs almost entirely in respect of trade with foreign countries, and most noticeably so in regard to Japan and America. The credits thus due to India in foreign lands, adjusted as they usually are through London, must therefore have been a considerable factor in assisting England's international exchange position.

Change in forms of account.

" 6. Before I lay before the Council our estimates for the present and the coming years, I must note some changes in the accounts submitted.

" (1) As I foreshadowed in my final Budget speech last March, we have split up expenditure head No. 24—Medical into two sub-heads dealing respectively with medical and sanitary outlay, so that it may be easier for the Council to trace the progress of expenditure under sanitation. The same applies to the corresponding receipt head No. XX.

" (2) The Secretary of State has decided that the ' Estimate of Revenue and Expenditure of the Government of India,' which has hitherto been separately laid before Parliament, need no longer be so submitted, and that the figures should be exhibited in connection with our Budget accounts. Accordingly the Financial Secretary's Memorandum has now appended to it a statement of the revenue and expenditure of the Government of India and the Provincial Governments, which gives the information previously supplied in the Parliamentary paper.

[1st MARCH, 1917.]

[Sir William Meyer.]

Revised Estimate of Revenue and Expenditure for 1916-17.

"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, 1916-17.			Revised, 1916-17.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue	55·925	30·603	86·528	64·803	31·051	96·754
Expenditure	55·099	30·956	86·055	59·065	30·390	89·455
Surplus (+) or deficit (—).	+ 826	—353	473	+5·738	+1·561	+7·299

* But see adjustment referred to at the close of paragraph 68 and the final table in paragraph 70.

Revenue and Expenditure—Imperial.

"8. As regards Imperial transactions, it will be observed that we are about £9 million better under revenue, but our expenditure has increased by about £4 million, leading as a result to a surplus of £5·7 million against £826,000 estimated in the Budget.

"9. Nearly half the expansion of Revenue is due to a phenomenal increase of over £4 million under Railways. The following statement, in millions of pounds, shows gross and net receipts from State Railways for the year 1915-16, and as taken (a) in the Budget, and (b) in the Revised Estimate, for the current year:—

—	Actuals, 1915-16.	Budget, 1916-17.	Revised, 1916-17.
Gross receipts	38·2	37·6	41·7
Working expenses, including payment of surplus profits to Railway Companies.	20·3	20·7	20·8
Net receipts	17·9	16·9	20·9

"In framing the current year's Budget we did not deem it safe to repeat in full the record figure under gross receipts which was then anticipated in 1915-16. As I said in paragraph 24 of my speech introducing the current year's Financial Statement, this head (Railways) "is one under which it is specially necessary to take cautious estimates, since a relatively small percentage of error may lead to a difference in the aggregate sufficient to affect the financial position to a material extent. Even apart from the war and possible further trade restrictions connected therewith, the outlook for 1916-17 is not wholly satisfactory in view of the unfavourable south-west monsoon of the current year (1915-16) and the unsatisfactory winter rains, and we think, after very careful examination, that it is not safe to count on a full repetition of the record railway revenue which we count on obtaining this year."

"Fortunately, however, owing to good rains, more favourable trade and economic conditions, and absence of the normal competition from the coasting trade—which has given the railways, for example, so much more coal to carry—the railway receipts, which had shrunk materially in the first year of the war, have continued the upward progress which they subsequently took, and have now reached an unprecedented figure. I may add that a small portion of the additional net railway receipts comes out of our own pocket on the military side, as I shall mention later on.

“10. The remaining increase under Revenue occurs chiefly under the following heads:—

“(1) *Opium*.—£866,000, due mainly to higher prices realised at our auction sales in Calcutta, and also for medicinal opium sold in England. As I indicated last year, the war has opened up for us a market for medicinal opium which was formerly supplied from Turkey. I may note here that we have concluded an agreement with the Government of the Netherlands Indies, with effect from the 1st January last, similar to those we already have with the Straits Settlements and Hong Kong, under which that Government will now take from us at an agreed fixed price all the opium it requires from India.

“These arrangements for the direct supply of opium to other Governments do not, I may add, increase the quantity of opium which we make available for export to the Far East, as a corresponding reduction is made in the amount which we offer for sale at the Calcutta auctions.

“(2) *Salt*.—£798,000. Owing to the falling off in the import of salt into Bengal and thence into Bihar and Orissa, by reason mainly of freight difficulties, the demand for salt of local manufacture has extended to areas previously supplied by the imported article. This additional demand has fallen mainly on Punjab salt, and has led to a rise in price, which has been greatly enhanced by speculation in the salt trade, with the result that applications for the clearance of salt, accompanied by payments of duty, have been registered long in advance, and such orders are now booked well into the coming year. This rush of applications was also encouraged by the apprehension of a further increase in the salt duty in connection with the Budget of 1917-18. The result is that we have obtained in 1916-17 a good deal of revenue which properly belongs to 1917-18, and against the large increase this year we shall have to set off a practically equivalent fall in the succeeding twelve months.

“(3) *Customs*.—£891,000. This improvement reflects the more favourable trade conditions to which I have already referred, and substantial increases occur under most of the tariff sub-heads, as, for example, sugar, tobacco, chemicals and articles of food and drink. The most important of the improvements, however, are an additional £½ million under manufactured articles, £253,000 under cotton manufactures, and £230,000 under metals and manufactures of metals other than silver. The export duties also share in this general improvement, the jute duty having contributed about £170,000 more than was anticipated in the Budget—in spite of the retrospective exemption of raw jute purchased for His Majesty's Government—and rice an additional £156,000. On the other hand, we have a warning as to the grave influence which war conditions may at any time exert on our import revenues in the decline of £½ million in the duty on private imports of silver, owing to high prices and heavy coinage demands, and difficulties of shipment, and of £100,000 in the imports of petroleum which, again, have been affected both by high prices and freight scarcity.

“(4) *Mint*.—£5£2,000, mainly due to seigniorage on our recent large rupee coinage. This seigniorage is a fixed percentage, deducted from the profits otherwise payable to the Gold Standard Reserve, in order to cover the cost of mint establishments and other coinage charges. There is likewise an increase in the profit on nickel coinage, owing to a rise in the circulation of nickel pieces.

“(5) *Posts and Telegraphs*.—£300,000, due to expansion of postal business and increase in the number of field service telegrams.

“11. In addition to these large improvements under the Imperial heads, there has been a most satisfactory growth of revenue under those which we share with the Local Governments. We thus obtain an additional £353,000 from *Income Tax*, due mainly to the high profits realised in Bengal and Bombay as the result of war conditions; and £170,000 more under *Excise* and the same amount under *Stamps*.

“12. We have also a gain of £338,000 in our gross receipts under *Interest*. As I shall explain later, the peculiar circumstances of the year have led to an increase of the balances which the Secretary of State has had available for temporary investment, and have also entailed very heavy sterling investments on behalf of the Paper

[1st MARCH, 1917.]

[*Sir William Meyer.*]

Currency Reserve, and our interest receipts have increased in consequence. In view, however, of these quite exceptional receipts, we propose to provide for the payment of £399,000 towards a special 'Paper Currency Reserve Depreciation Fund,' and as this payment will be treated from the accounts standpoint as a reduction of receipts, it has the effect of disguising the real improvement obtained, which would otherwise have been as shown above. The circumstances which have led to this proposal are as follows. Our normal Paper Currency Reserve investment, as it stood before the war, included a consols holding of £2½ million. The continued retention of this now heavily depreciated security is an unsatisfactory feature in our otherwise strong Paper Currency position. Any sterling investments we hold on behalf of this Reserve should be readily realisable when occasion requires, and such realisation should not involve material loss. Neither condition is satisfied with consols on their present footing. It has accordingly been decided that the consols holding should be gradually replaced by Treasury bills, the Secretary of State selling the former at such times as he may deem advantageous; and he hoped to sell out £250,000 during the current year. But as the consols are shown in the Paper Currency Reserve at their original purchase figure, their sale at present prices would involve a considerable loss on the amount at which they are still valued in our returns. It is accordingly proposed to constitute a depreciation fund, which will progress to the total difference in value between the consols in the Paper Currency Reserve at the date of purchase and what they are likely to realise on sale. This fund will be gradually built up out of interest which we get from the Paper Currency sterling investments; as consols are sold it will make good to the Paper Currency Reserve the difference between the sale price and the original purchase value; and till the assets are so employed they will be invested in Treasury bills. In 1916-17 we expect to get from interest on sterling investments in the Paper Currency Reserve a total sum of £399,000; and in view of our satisfactory financial position this year we propose to pay in the whole of this sum to the new depreciation fund.

"13. I have had made for me some interesting, but necessarily rough, calculations as to the extent to which our revenue receipts are due to the taxation imposed last year. The new taxes were estimated in the Budget, on the best information we could then get, to give us £3·6 million. It is now estimated that the actual yield has been about £1,200,000 more than this, of which £200,000 occurs under Salt, £650,000 under Customs, and £350,000 under Income Tax. The increases under the first and last heads, however, are largely due in the one case to considerable advance payment of duty and in the other to abnormal war profits.

"14. On the Expenditure side, there is a total increase of about £4 millions over the Budget Estimate, the greater part of which occurs under *Military Services*.

"Deducting from the gross military expenditure the amount that we get in the way of receipts, we provided in the Budget for a total net outlay of £22½ million, which included £520,000 kept as a reserve against unforeseen charges. Not only has that reserve been utilised, but the total net military expenditure is now estimated to amount to about £25·4 million, as against £20½ million taken under peace conditions in the Budget for 1914-15. The principal items contributing to this excess are:—

"(1) An outlay of £936,000 on additional rifles and ammunition which have to be obtained from Home, and which the War Office had till very lately been unable to spare for us. This represents about two-thirds of our total indent, estimated to cost £1,486,000, and the remaining £550,000 will, it is expected, be spent in 1917-18. These supplies are greatly needed in view of the wear and tear of our existing stock of rifles and the drain on our ammunition supply, and the necessity for adequately arming the large number of new recruits we have had to raise.

"(2) Increased outlay in connection with the position on the North-West Frontier (£367,000)—caused mainly by (a) training of troops on the frontier and connected movements; (b) expansion of animal transport units, and services such as the Supply and Transport and Army Bearer Corps; (c) actual operations against tribesmen, and subsidiary expenditure in connection therewith under rations, clothing, stores, *batta*, etc.

"(3) Improvement of frontier roads (£200,000).

“(4) Increase in ordinary expenditure on imported and local stores, owing to higher prices, etc. (£700,000).

“(5) Increased railway charges in India consequent on larger movements of troops and stores (£393,000).

“(6) Provision of £160,000 for application, from 1st January 1917, of the concessions announced on that date in regard to free rations to sepoys and larger pay to the higher ranks of the Indian Army. This allows for outlay in providing a necessary reserve of food stuffs.

“(7) Increased outlay in connection with the Aden operations (£137,000) owing mainly to larger supplies of stores.

“15. The only other item of increase which calls for special remark on the expenditure side is one of £524,000 under *Political*, due to special political expenditure in Persia, and the Indian share of the cost of military police and levies employed there.

“16. On the other hand there is a decrease of £319,000 under *Interest charges*. The Budget estimate contemplated the renewal of £5½ million India Bills which, as explained in paragraph 23 below, it has since been decided to discharge. The provision made for discount on the renewal of the bills is thus saved.

“17. The final result, as already stated, is that we obtain a surplus of £5·7 million. The greater part of this must be associated with a quite exceptional south-west monsoon and its consequences; but a substantial portion, as I readily admit—indeed I would rather say claim—is due to our cautious estimating a year ago at a time when the outlook, including military and political as well as trade and seasonal possibilities, demanded extreme caution. We are reminded even now of the latent possibilities in an adverse direction by the fact that our military expenditure and cognate political outlay have increased by nearly £3¼ million above the provision which we thought desirable last March, and this notwithstanding the fact that there has been no gravely disturbing change in our general military situation. In addition, as I shall shortly show, there is £1·8 million more of military expenditure against which we obtain no immediate recoveries, and some of which may eventually come against the revenue account.

“The necessity for ample resources in the present year and during the twelve months to come will, however, be still more evident to those who study our ways and means position with attention, and thus realise that it is not necessarily on the revenue side that our chief difficulties lie. The money represented by our large surplus has been invaluable in the current year in assisting us in meeting the strain on our balances in India occasioned by the very large payments we have had to make on behalf of His Majesty's Government. The corresponding remittances to England which they ultimately enabled have served the double purpose of contributing to the extinction of our emergency war debt and towards assistance to His Majesty's Government in the prosecution of the war. And finally, as I shall shortly explain more fully, this new element of strength in our revenue position enables us to take up new obligations which we have keenly at heart.

“Looking back to the Budget of a year ago I should not admit that our caution then was misplaced, and looking forward to the liabilities of the future I am quite clear, and the Council too will soon perceive, that no portion of the additional revenue which we then took could wisely have been dispensed with.

Revenue and Expenditure—Provincial.

“18. We estimated in the Budget that the provinces, in the aggregate, would obtain a revenue of £30·6 million and spend £31 million, leaving a deficit of £400,000,—or to be precise, £353,000—which would be made up from their balances. The present figures indicate, speaking roundly, an income of £31·9 million and an expenditure of £30·4 million, thus leading to an aggregate Provincial surplus of about £1·5 million.

“All provinces share in this improvement, both in revenue and expenditure. As already indicated, the increase in revenue occurs mainly under the Provincial shares of Stamps, Excise, and Income Tax.

[1st MARCH, 1917.]

[*Sir William Meyer.*]

"The lapse in expenditure is distributed in small amounts over most of the principal heads, and has been largest in Bombay, Madras, Bengal and Burma. The aggregate Provincial surplus goes of course into our balances to the credit of the provinces concerned.

Revised Estimate for 1916-17—Ways and Means and Secretary of State's drawings.

"19. The important Budget figures in this connection were as follows:—

<i>Outlay.</i>		<i>Resources.</i>	
	£ million.		£ million.
Provincial deficit	0.4	From balances	0.6
Capital Expenditure—		Imperial surplus	0.8
Railways	3.0	Rupee borrowing	4.3
Irrigation	0.9	Unfunded debt	0.3
Delhi	0.3	Special war receipts*	0.4
Discharge of debt	2.0	Miscellaneous items	0.2
	TOTAL . 0.6		TOTAL . 0.6

"20. The figures will now stand thus:—

<i>Outlay.</i>		<i>Resources.</i>	
	£ million.		£ million.
Capital Expenditure—		Imperial surplus	5.8†
Railways	1.5	Provincial surplus	1.5
Irrigation . . . . .	.6	Rupee borrowing	4.5
Delhi	0.3	Unfunded debt	1.7
Discharge of debt	11.6†	Special war receipts	1.0
Purchase of military stores and equipment awaiting allocation	1.8	Miscellaneous items	1.5
	TOTAL . 15.8		TOTAL . 16.0

"21. Taking resources first—

"(1) I have already explained the Imperial and Provincial surpluses.

"(2) We announced in the Budget a rupee loan of £4½ million, including the Post Office section; but we were ready to take up to £4 million more, in which case we should have devoted the surplus to paying off our loan from the Gold Standard Reserve. As a matter of fact, however, we have got little more than the amount that we fixed as in any case necessary.

"(3) Unfunded debt will bring us in £1.7 million in view of the welcome fact that there has been a net increase of £700,000 in post office savings banks deposits, instead of a like decrease as apprehended when the Budget was framed.

"(4) Under Special war receipts we now anticipate a higher return from the hire of enemy ships, and also some further deposits in connection with the liquidation of hostile trading concerns; while the Miscellaneous item shows an improvement of £1.3 million attributable to improved receipts from local funds and miscellaneous deposit transactions, and a large increase in the amount of Council bills remaining unpaid at the end of the year as compared with the amount outstanding at its beginning.

"22. (1) On the outlay side, we have no longer to reckon with any Provincial deficit, there being on the contrary a surplus.

* These include sums obtained from deposits of funds accruing from the liquidation of hostile firms and the employment of enemy ships.

† The discharge of debt is shown in Statement C of the Financial Statement as amounting to £11.8 million. The difference represents rupee debt bearing interest at 3 and 3½ per cent. which has been cancelled by the issue of a smaller face value of 4 per cent. paper in return for 3 and 3½ per cent. paper surrendered in connection with the conversion operations of 1916. 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.'

‡ Figure adjusted with reference to paragraph 68 and the table in paragraph 70.

[*Sir William Meyer.*]

[1st MARCH, 1917.]

"(2) The Railway capital expenditure is now estimated at £1·5 million against £3 million taken in the Budget. A lapse of £1 million is expected in England owing to the difficulty of obtaining material, and it is probable that the railway authorities here will not be able to spend more than about £300,000 in excess of the grant originally allotted to them for expenditure in India. The actual outlay is thus expected to amount to about £2·3 million, but from this a deduction of £810,000 has to be made on account of railway stores sent to Mesopotamia and elsewhere for the construction of military railways there at the cost of the Home Government. In effect, while £23 million has been spent on the improvement of our railway property as a whole, this addition to the capital account is partly counterbalanced by the diminution of the value of that property to the extent of the £0·8 million of stores which it has thus surrendered.

"(3) The reduced Irrigation expenditure is in accordance with the progress of actuals, the lapse being largely due to the completion of the larger projects and the deputation of engineers to military duty.

"(4) On the other hand, we have had to incur expenditure to the extent of £1·8 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.

"23. We find ourselves then, owing mainly to an improvement of about £7 million in the Imperial and Provincial surpluses, able to meet our current liabilities outside discharge of debt, and at the same time to provide a much greater amount for the latter purpose. The Budget programme under this head contemplated the repayment of £½ million of India bonds which fell due for redemption in the ordinary course, and of £1½ million out of the £7 million of short-term India Bills which the Secretary of State had raised at the beginning of the war. We had also closed the year 1915-16 with a debt of £4 million (out of £7 million borrowed at the beginning of the war) still outstanding to the Gold Standard Reserve, but we could not then see our way to discharging this liability in the current year, except in the contingency, which did not mature, of a very large response to our conversion loan.

"With our improved resources we are now able, besides paying the India bonds, to discharge the £7 million of India Bills in full, and also the whole of the loan still outstanding from the Gold Standard Reserve. Our total payment in discharge of debt, including a small item of Railway Companies' borrowing and an annual instalment in repayment of an old loan from the Gwalior State, thus amounts to £11·6 million. Our emergency war indebtedness is thus extinguished, and we shall be ready to undertake next year the new obligations of which I shall presently have to inform the Council.

"24. I now turn to the state of our balances. The revenues did well at the end of 1915-16, and, as the table in paragraph 20 shows, we have not had to resort to drawings upon balances in 1916-17, but on the other hand should have been able to add to them to the extent of £0·2 million. The matter is complicated, however, by adjustments in respect of silver purchases effected towards the end of the year. The Secretary of State pays for some of his purchases at once, and his balances are depleted accordingly, but the corresponding credit on our side is not effected until the silver is received in India at the beginning of the next financial year. There is thus a short interval in which the value of the silver is lost to our accounts altogether and the amount thus temporarily withdrawn has not been taken into account in the foregoing calculations. Allowing for this, the actual position which we expect to attain on the 31st March next is a closing balance of slightly over £18 million as compared with £17·6 million anticipated in the Budget. In reality, however, we have improved on Budget anticipations to a larger extent as the value of the silver temporarily lost to our accounts in the manner above described is expected to be £1·7 million, and as soon as this silver is received in India, in April or May, the balances will rise by the same amount.

"25. I have so far been dealing with those transactions only which affect our balances as a whole, and have not considered the numerous, and on this occasion even more important, transactions which imply a receipt or disbursement on our side against

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

a corresponding disbursement or receipt in England. In ordinary years it is not necessary to give any prominence to this complication in the general statement of our financial position. We are satisfied to show that we are maintaining suitable balances both in England and in India, and a proper distribution of our resources is usually attainable without special difficulty. In the present year, too, we hope to succeed in closing the financial year with an adequate balance both here and in England. The figures we anticipate are £5·7 million in London, and £12·4 million in India, the latter figure being about the same as the usual standard, and the former well above it. But this result has only been secured by exceptional measures, and with much difficulty and anxiety. The question bears most closely on our own financial position and on the interests of trade, and I shall therefore endeavour to make it clear.

Remittances to the Secretary of State, and their bearing on exchange.

“ 26. The Secretary of State's cash requirements, as anticipated when the Budget was framed, were on a more or less normal scale. He expected to require £21·8 million for his ordinary home charges, including capital outlay, and £2 million more for discharge of debt in England, as already explained. His balances, however, were strong, and it was contemplated that £1·3 million would be found by drawing upon them. For the remainder, namely £22½ million, the Secretary of State relied on recoveries in London on account of war expenditure to the extent of £18·6* million, which we expected to incur on behalf of His Majesty's Government in India, and proposed to obtain the balance by drawing Council bills on us to the extent of £3·9 million. While, however, our expenditure in India on war requirements against corresponding recoveries by the Secretary of State at home evidently operates, so far as he and we are concerned, in the same manner as the sale of his Council drafts, it does not, like the system of Council drawings, also meet the demands of trade in respect of private remittances to India; and by depleting our treasury balances, it diminishes our ability to meet those demands otherwise. It was in fact evident, even when our Budget was framed, that most of the strain of the trade demand for Council drafts in 1916-17 must ultimately be thrown upon the Paper Currency Reserve, and measures to meet that contingency were duly taken.

“ 27. I will now state what has actually happened. As I have just explained we calculated in the Budget that we could afford to let £22½ million of our treasury balances be transferred from here to England. The total amount which, as we now estimate, will be actually transferred to London has risen to the unprecedented figure, of £71½ million. Our recoverable war expenditure, now estimated at £38½ million, has been more than doubled, and, in addition, there has been an acute trade demand for Councils which has been and is being met to the extent of £33 million. The two questions at once arise how has this enormous transfer been financed on our side and how has the Secretary of State employed the excess funds thus remitted to him.

“ 28. Well, as I have already said, we quite realised from the outset that there would be a much heavier trade demand for Councils than the small sum which, as it seemed, our treasury balances would be able to meet. We have met the two-fold strain of increasing war outlay in India, coinciding with a strong trade demand for remittance to India, in three ways. In the first place, we are finding from our treasury balances a total sum of £33 million. As already stated this improvement of £10½ million on our original forecast is due mainly to the large Imperial and Provincial surpluses, that is to the generally prosperous revenue position. Secondly, outside silver in transit we shall have provided the equivalent of £19½ million of new currency by the coinage of silver purchased for us in England. Thirdly, we have withdrawn £19 million from the Paper Currency Reserve in India, placing ourselves in a position to do this by taking power from time to time to increase our Paper Currency Reserve investments in England.

“ 29. I turn now to the arrangements on the Secretary of State's side. He receives in remittances from us some £71½ million. Of this amount, he will require, as we

* I include in this figure some outlay for the Australian Commonwealth.

[*Sir William Meyer.*]

[1ST MARCH, 1917.]

now estimate, £21·7 million for his ordinary charges, while £16·2 million have been applied to the purchase of silver, and £19 million have been invested in the Paper Currency Reserve. Another £1·3 million, representing mainly the profits on the coinage of our large silver purchases, has been invested on behalf of the Gold Standard Reserve. With the balance left, and by drawing to the extent of £1·3 million on his cash balance, which stood at the commencement of the year at the large sum of £7 million, the Secretary of State has been able, as already explained, to devote £11½ million to the discharge of debt.

“30. These, then, are the bare facts of our ways and means situation as between England and India. They may be focussed in a sentence: we anticipate that we shall have arranged, in a single year, for remittances well exceeding the maximum remittances of any two successive years since 1899, when our present gold standard system first became effective. The exchange difficulty has arisen from the fact that, for the time being, we have not been able to do more. Or, to put the matter in another form, under war conditions India's exports, more particularly since the Indian Government has itself become an immense exporter of war supplies and services, are urgently demanded without regard to considerations of price, freight or quantity, while the same conditions have restricted the volume of the imports in kind which can possibly reach her in repayment, and preclude or impede the alternative methods of adjusting a balance of trade which has become embarrassingly large. The import of gold on a large scale is obviously prejudicial to the larger interests of the Empire as a whole, while silver, as present prices testify, is increasingly difficult to obtain.

“31. Let me now glance for a moment at the situation prior to this crisis. At the outbreak of war, we had a very strong rupee stock in this country, amounting to some R40 crores, and as soon as our entry into the war supplied a justification for drastic measures, we stopped the issue of gold and conserved our holding of £10 million of sovereigns for future eventualities. At that period, and for some considerable time after, our real danger lay in the possible weakness of exchange, so that it would have been manifestly unsafe then to add to our stock of silver in India at the expense of our stock of gold in London.

“Starting, then, with very considerable strength as regards our metallic reserves, we had also, before the occurrence of the present crisis, fortified ourselves still further by the measures taken to encourage the more rapid growth of our note circulation. Three years ago the active circulation stood at R52 crores and fell at once to a much lower figure at the outbreak of war. A year ago the circulation had reached R54 crores, and I felt it a matter of considerable satisfaction that its recovery had been so complete. Today it stands at R68 crores; and I can only say that, but for this phenomenally rapid development, our situation now would have been much graver than it is.

“32. I turn next to the vicissitudes of exchange. At the outbreak of the war exchange dropped, and from August 1914 to January 1915 it was necessary to have weekly sales of sterling drafts on London. Exchange fell once more in June 1915, and the sale of reverse drafts had to be resumed for three months. The demand for Council drafts then recommenced and for a long time continued on a moderate scale. It first attained abnormal strength at the end of January 1916, and sales were maintained on a heavy scale during February and March. Thereafter, during the first six months of the present financial year, the demand was again reduced to more moderate dimensions, but revived at the end of October, and in the early part of December the weekly sales averaged over £2 million. Our rupee holding in the Paper Currency Reserve had then sunk to R14 crores, and in spite of the silver awaiting coinage, it was evident that, under the conditions as regards purchase and shipment which the war imposed, a limit must be placed, for some time at any rate, upon further sales. To have held on would have been to accept the probability of falling short of rupees for the encashment of notes and of having to declare our paper money temporarily inconvertible. Accordingly, on December 20th the Secretary of State imposed a limit of Rs 80 lakhs on his weekly sales, which was raised to 120 lakhs for the following week and has since been continued at that figure.

“33. It only remains to recite briefly the remedial measures which we have taken. At the time when the demand for Council drafts became heavy about January 1916, our

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

rupee balances were still exceptionally strong and we were approaching the period when rupees ordinarily return to us in large quantities. Indeed we experienced no difficulty in standing up to the demand until the slack season began. Nevertheless, in February 1916 we advised the Secretary of State that it would be desirable to resume the purchase of silver, and since then purchases have been continuously made in spite of a range of prices which threatened, if unduly forced, to raise the intrinsic value of the rupee to its value as a token coin. We estimate that the fresh silver obtained since February last year will suffice to provide 36 crores of new rupees—a sum far exceeding the fresh coinage in any similar period since the re-opening of rupee coinage in 1899-1900. Of the total amount just mentioned our local purchases in India account for some 2½ crores while the remainder has been negotiated in England. Those who have followed the price conditions of the period, and are aware of the other demands upon the silver stocks of the world, will not fail to realise the amount of successful effort on the part of the Secretary of State in England which the purchase of this huge quantity implies.

“34. At the time when these difficulties began, our original £10 million of sovereigns had been reduced by various calls connected with the war to £8 million. But in the meantime we had also in our vaults £7 million worth of gold bullion which we were holding on behalf of the Bank of England, and we have taken steps, as the Council are aware, to place this gold at the disposal of the public on such conditions as will give us the maximum help from the currency standpoint. In effect we are purchasing this gold for the above purpose from the Bank of England, which is reimbursed, as the sales proceed, from gold hitherto held on behalf of the Paper Currency Reserve in London. And when, by our sale of this gold, a situation has been reached in which the present premium of the sovereign in India, as compared with the normal exchange parity of 15 rupees, has wholly or mainly disappeared, we shall proceed to release a portion of the sovereigns held in the Paper Currency Reserve on this side.

“Owing to the absence of facilities for refining gold on a really large scale, it is taking some time to absorb the raw gold available. This difficulty is being remedied as far as possible. Meanwhile an amount valued at £1¼ million has been placed upon the market by the first four weekly sales, and the quantity taken each week is now showing a satisfactory upward movement.

“35. As regards the further encouragement of the note circulation, our action so far has necessarily been of a negative character, but I attach no little importance to it. It consists in our refusal to curtail the enlarged facilities for the encashment of notes which the public have enjoyed throughout the war and which have been productive of such beneficial results in the extension of our note circulation. We are also about to consult Local Governments as to the advisability of introducing a one rupee note. If this innovation can be attempted and proves successful, no one will be more gratified than myself, for I have always been optimistic as to the wide possibilities of our paper currency system and may claim, I think, to have done a good deal to demonstrate them practically. But we must beware of forcing the pace in these matters, especially at times of incipient uneasiness like the present.

“36. There remains, among the fundamental methods of attacking the problem, one other yet to be mentioned. The difficulty of securing to India the payment for her excess of exports can be avoided in so far as she is prepared to give credit for the amount due to her instead of insisting on immediate payment in kind or cash. The war loan of unlimited amount which we now propose to float offers an opportunity of testing possibilities in this direction. If all these remedies prove inadequate, the only remaining alternative is the temporary contraction of our exports, and that is a result which we must anticipate from the restrictions on the sale of Council drafts which have become necessary as an emergency measure in the present season. As has already been said in the press notice issued after my discussions with the exchange banks and other commercial authorities in Calcutta, we intend that these restrictions shall be relaxed as soon as it is safe to do so, but so long as the difficulties which they are meant to meet are unremoved, the restrictions too must remain. What can be done is to alleviate the rigour of their operation, directly upon the exchange banks and indirectly upon trade generally, as fully as possible both by our own action and, what is more important, by the concerted

action of the banking community and trade. This concerted action is now being taken. The Secretary of State's Council bills are being allotted at a fixed price; the exchange banks are maintaining fixed rates of exchange in England and India; and I would ask commercial houses in India to give these efforts at mitigating the difficulties of the situation their fullest and most loyal support.

"I will conclude these remarks on the exchange difficulty by reminding the Council that, as Your Excellency pointed out in your opening speech this session, it arises ultimately from an essential service which India is rendering to the Empire in financing war expenditure abroad and so assisting in securing the United Kingdom's exchange position. The inconveniences arising therefrom, however acutely they may be felt, will therefore, I trust, be readily accepted as a war sacrifice which India has made for the Empire.

"37. Turning to another phase of these transactions, we find that the abnormal remittances to England have rendered possible further services of a very valuable kind. By arranging to discharge £7½ million of sterling debt in the current year we have left the home market free to that extent to take up the Home Government's war securities. The sums of £19 million and about £4½ million invested on behalf of the Paper Currency and Gold Standard Reserves, respectively, have been employed in the purchase of Treasury bills, that is have been lent to the Home Government for the prosecution of the war. The £4 million of debt repaid to the Gold Standard Reserve is being lent, by investment, in the same manner. In effect, therefore, out of about £38½ million which we are spending this year on account of His Majesty's Government and recovering from them, we are re-lending them more than £27 million through the purchase of their war securities. Taking last year's transactions into account also, our total holding in British war securities in the Paper Currency and Gold Standard Reserves will amount at the end of this year to about £46½ million, of which £35 million is wholly new investment.

"Few people have, I think, realised the extent to which we have been able to assist His Majesty's Government by these operations. The sums with which I have been dealing are far in excess of what could have been obtained—even had such a step been otherwise desirable at an earlier stage—from a war loan in India.

India's Financial Contribution to the War.

"38. This brings me face to face with the whole question of India's financial contribution to the war. We have been subjected to much criticism in certain quarters for not contributing more than we have done, and we have been reminded in this connection of a Resolution moved and carried in this Council on the 8th September 1914 by Sir Gangadhar Chitnavis, to which Your Excellency referred in your speech on the 7th February, in which the Council expressed the opinion that 'the people of India, in addition to the military assistance now being afforded by India to the Empire, would wish to share in the heavy financial burden now imposed by the war on the United Kingdom, and request the Government of India to take this view into consideration and thus to demonstrate the unity of India with the Empire.' Also of a further Resolution, moved and carried on the 24th February 1915 by Mr. M. S. Das, which affirmed the 'unswerving resolution of Indians to support the honour, dignity and prestige of the Empire regardless of the sacrifice it may entail on them.' We have been told that it is a very inadequate compliance with the spirit of these Resolutions to be merely bearing the normal peace cost of the expeditionary forces which we have despatched over-seas; and we have been accused, with reference to remarks made in paragraph 14 of my speech introducing the last Financial Statement and paragraph 5 of that introducing the final Budget, of having tried to squeeze His Majesty's Government in respect even of these normal charges.

"39. Well, I must remind these critics that section 22 of the Government of India Act forbids the application of the revenues of India to defraying the expenses of any military operations carried on beyond our external frontiers otherwise than for preventing or repelling actual invasion or under some other sudden or urgent necessity, and that the specific consent of both Houses of Parliament is requisite to set these provisions aside. As the law stands, the whole cost of the expeditionary forces supplied from India was therefore primarily debitable to His Majesty's Government,

[1st MARCH, 1917.]

[*Sir William Meyer.*]

as had been the case, for example, in regard to the troops we lent for operations in South Africa during the Boer War, and in China about the same time. We felt, however, that in the circumstances of the present war we could not properly claim such full payment, and accordingly, after the passing of Sir Gangadhar Chitnavis's Resolution, which I may say was brought forward with the full cognisance and approval of Lord Hardinge's Government, we proposed that we should bear the normal charges. Resolutions to this effect were passed in both Houses of Parliament, first in September 1914 and again in November of that year, and the latter Resolution governs India's present contribution in money to the war. Its terms are as follows :—

“That, His Majesty having directed military forces charged upon the revenues of India to be despatched out of India for service in the war in which this country is engaged, this House consents that the ordinary pay and other ordinary charges of any troops so despatched, or that may be so despatched during the continuance of the war, as well as the ordinary charges of any vessels belonging to the Government of India that may be employed in these expeditions, which would have been charged upon the resources of India if such troops or vessels had remained in that country or seas adjacent, shall continue to be so chargeable, provided that, if it shall be necessary to replace the troops or vessels so withdrawn by other vessels or forces, then the expense of raising, maintaining, and providing such vessels and forces shall be repaid out of any moneys which may be provided by Parliament for the purposes of the said expeditions.”

“40. So long as this Resolution is in force, His Majesty's Government and we are equally bound by it, and we can neither increase nor decrease the amount of financial assistance which we render in accordance with its terms. In effect what the Resolution lays down is that, although we sent a large number of our best troops out of the country at a time when mere considerations of local safety might well have dictated their remaining here, we pay for them just as if they were still employed in India and at our beck and call.

“Further, as regards what constitute ‘normal charges’ in respect of the many items of expenditure involved, we are bound to satisfy our Auditor General as to the correctness of the classification or to submit his objections for the decision of the Secretary of State. There have consequently been discussions with His Majesty's Government in regard to the proper interpretation of the term normal charges in respect of various items, some of the more important of which were mentioned in the portions of my speeches above referred to. But in every case the discussion has been of the most friendly nature, and whenever there was any reasonable doubt we have been very willing that the decision should be given against ourselves. I may add that the War Office have cordially acknowledged the fairness and clearness with which the accounts have been compiled on this side, and the credit for this is primarily due to Mr. B. N. Mitra, C.I.E., the Controller of War Accounts.

“41. The gross amount that we shall thus have contributed up to the end of the present year may be taken at £19 million; but against this must be set charges relating to British troops actually serving in India which are being borne by the Imperial Government in pursuance of the provision in the Resolution of both Houses of Parliament, that the cost of substituted troops (territorial and garrison battalions) shall be borne by the Home Government. With that adjustment, our total net contribution towards the cost of the war in respect of the Expeditionary Forces is about £11½ million up to the end of the current year, to which we must add another £4 million estimated in respect of 1917-18.

“It may be said, of course, that we have not done enough in this respect, and that we ought, through His Majesty's Government, to have moved Parliament to authorise a wider expenditure by India. That is a point which I shall discuss presently. In the meantime I desire to emphasise the fact that we cheerfully agreed to bear the charges which I have discussed above, and that we have never sought to minimise them, though we have been bound to interpret the terms of the Parliamentary Resolutions in a way that would satisfy the Auditor General.

“42. It has also to be borne in mind that, quite apart from these charges, we have had to add to our military expenditure very considerably in connection with the war, which has, in particular, rendered it necessary to take special measures for

[*Sir William Meyer.*]

[1st MARCH, 1917.]

the protection of the North-West frontier. I need not go into details here, but will let the lump figures of military expenditure speak for themselves. The last budget framed under peace conditions, that for 1914-15, assumed a total net military expenditure of £20½ million, which was higher than the outlay for any preceding year subsequent to 1906-07. In 1915-16 the net military expenditure amounted to £22½ million; in the current year, as I have already explained, it has run up to nearly £25·4 million, while we expect it to amount to close on £26 million in 1917-18. The bulk of the increased expenditure thus shown is directly attributable to circumstances connected with the war, and with the precautionary attitude which further possibilities have forced upon us.

“43. It has also to be remembered that we have been put to very considerable additional expenditure, in conjunction with His Majesty's Government, by reason of the political situation in Persia set up by the war. The total additional cost thus thrown upon us may be taken at £1,200,000 from the commencement of the war up to March 1918.

“44. We have further, as I have already indicated, had to strain our resources very seriously, and to impose prejudicial limitations on legitimate trade activities, in order to finance very heavy charges in this country on account of His Majesty's Government, while we have re-lent them a large part of our recoveries by taking up Treasury bills through the Paper Currency and Gold Standard Reserves. In all, as I showed in paragraph 37, we have, since the beginning of the war, put £16½ million into British war securities, of which £35 million represents wholly new investment. And in 1917-18 we expect that our anticipatory payments for the Home Government will be about as heavy as in the current year, while we must anticipate a recurrence of the attendant difficulties.

“45. Finally, at the cost of cutting down our capital expenditure programme to the quick, we have abstained from indenting on the home money market with the intention of leaving it free for His Majesty's Government's loan operations. Thus in 1915-16, allowing for the discharge of debt, our net borrowings in London amounted only to a sum of £2 million, while in the current year we are making no fresh sterling borrowing, but are on the contrary redeeming £7½ million of previous debt. Nor do we propose to indent on the home market in any way in the coming year.

“46. We have been reproached in certain quarters for not having taken steps, a year or two ago, to float a special war loan in India, the proceeds of which would have gone to His Majesty's Government. I need only say that we carefully considered the desirability of such action and came to the conclusion that it was at that time not expedient. That conclusion, as the Secretary of State announced some time ago in the House of Commons, was fully accepted by His Majesty's Government, who realised that the best assistance we could then give was to abstain from borrowing in the home market and rely on India for our own essential requirements.

“47. I now revert to the question whether we might have done more in respect of direct contribution to His Majesty's Government, with reference to Sir Gangadhar Chitnavis's Resolution of September 1914. The answer is that the situation at that time did not permit it. Our finances had been most gravely dislocated by the war: we were faced not merely by a large decrease in revenue, but by a very serious drain on our post office savings bank deposits, which had compelled us to borrow £7 million from the Gold Standard Reserve, while the Secretary of State had incurred £7 million of temporary debt in London. In framing the Budget for 1915-16, again, we were faced by what we thought would be a heavy deficit, and having regard to political and financial considerations, Lord Hardinge's Government felt strongly that it was necessary at that time to avoid additional taxation. In connection with the Budget for the current year such taxation had become a necessity, but the position on the North-West frontier was still so uncertain that we could not safely undertake fresh direct liabilities in connection with the prosecution of the war outside India. We had still, moreover, heavy temporary debt liabilities, £4 million remaining due to the Gold Standard Reserve, while we did not then see our way to repaying more than £1½ million of the Secretary of State's India Bills.

“48. We have always felt, however, that if and when our circumstances warranted this, we should take up the question of making a further direct contribution by India.

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

towards a struggle in which her own political and economic future is so closely involved, and throughout which her trade and security have been so materially assisted by the command of the sea established by His Majesty's Navy; and we have been in constant touch with His Majesty's Government in regard to this matter. We hold that the time has now come at which we can safely put our wish into effect, and thereby gratify still further the patriotic feelings unanimously expressed in this Council on the occasion of the Resolutions moved by Sir G. Chitnavis and Mr. M. S. Das. We are able to do this without misgiving, since we have now, as I have already explained, cleared off the whole of our temporary liabilities, and have accumulated balances strong enough to enable us to carry out our reduced capital expenditure programme without further borrowing in India on our own account next year.

"49. Accordingly, at the beginning of January, Your Excellency addressed a telegram to the Secretary of State, from which I quote the following passage:—

"I feel, and I speak throughout with the cordial and unanimous assent of my colleagues, that the time has come for India to place her credit and her taxable capacity at the disposal of His Majesty's Government, to be utilised to the farthest extent which her limited resources and a just appreciation of the circumstances of her people render practicable, and in such time and manner as His Majesty's Government may deem expedient. We are prepared to borrow in India, as a war loan for His Majesty's Government, the largest sum which can be raised, and to offer for this purpose terms no less liberal than those which have been granted in England. If it should be found that Indian credit can also be usefully employed elsewhere, we should gladly assent to its being so employed; and in so far as the aggregate funds which India can thus directly borrow for the use of His Majesty's Government constitute a contribution not adequately proportioned to her resources, we propose that she should also undertake the service of a portion of the existing British war debt. In this spirit, and in the confidence that such an offer will evoke a generous response from the Princes and peoples of India, we have addressed ourselves to the task of defining practical possibilities."

"The telegram went on to indicate that we were prepared to accept an ultimate total special contribution of £100 million to the war, and to put forward proposals for increasing our resources in order to meet the consequent recurring liabilities, which may be taken at £6 million a year allowing for the gradual extinction of this debt by a sinking fund. Deducting from this £100 million the amount raised by our borrowing in India for the benefit of His Majesty's Government, and by any special issues which that Government might think it desirable for us to undertake elsewhere, we would liquidate the balance by taking over a portion of the Home War debt.

"His Majesty's Government have gratefully accepted this offer, and the £100 million we are thus contributing amounts, I may point out, to nearly double our total Imperial revenue as it stood before the war.

"50. I shall set forth presently the way in which we propose to raise the resources necessary for the carrying out of this offer, so I confine myself now to a few preliminary remarks on the subject of next year's war loan. Our decision to borrow next year as freely as we can for the benefit of His Majesty's Government, which was announced in general terms a few weeks ago, is in no way inconsistent with the view we took in 1915 that such a course was then undesirable, for the circumstances have now completely changed. In 1915 we had, as I have said, a large amount of temporary debt still hanging over us, and could only meet the capital expenditure which was necessary even in war conditions by further borrowing on our own account in India. We had also to consider the prejudicial effect on exchange which would be caused by borrowing a large amount in this country and remitting it home, bearing in mind that we had had two recent exchange crises necessitating considerable special sales of sterling drafts on London, the first shortly after the commencement of the war and the second in the summer of 1915. In short, in regard to this and other alleged shortcomings, our critics have not been in a position, as we and His Majesty's Government were, to take into account the various factors of a complicated situation. Now, however, we have to deal with an altered set of conditions. Thanks to our large surplus, the exercise of economy in respect of current expenditure, and drastic reduction of our capital outlay, we have been able to repay the whole of our large temporary borrowings; and, as I have already said, to accumulate sufficient funds to finance next year's necessary capital outlay without further recourse on our own account to the Indian market. The exchange position, too, is completely altered owing to the very large outlay which we have to make on behalf of His Majesty's Government in India, and which they repay to the Secretary of State in London. At the

[*Sir William Meyer.*]

[1st MARCH, 1917.]

same time such a loan will now strengthen our position here and will also give full opportunity for the patriotic feelings of those who desire to make some direct contribution to the carrying on of the war. I shall deal later with the character of the borrowing we thus propose, and will now proceed to discuss the Revenue and Expenditure estimates of the coming year.

Budget Estimate of Revenue and Expenditure for 1917-18.

Revenue and Expenditure—Imperial.

“51. I will first examine the position with reference to the existing sphere of taxation and liabilities, leaving for subsequent consideration the special contribution we propose to make to His Majesty's Government in connection with the war, and the measures necessary to find the requisite means. On this basis, and assuming that the next south-west monsoon will be normal, the following statement brings out our Budget anticipations on the Imperial side for 1917-18, as compared with the Revised Estimate for the current year:—

[In millions of pounds.]

	Revised, 1916-17.	Budget, 1917-18.
Revenue	64·803	63·213
Expenditure	59·065	60·433
Surplus	+5·738	+2·780

“That is, whereas we can look forward to an Imperial surplus of £5·7 million this year, we can only expect about £2·8 million in 1917-18.

“52. As regards *Railways*, which are an important factor in this less favourable result, the following statement compares the figures taken in the Revised Estimate with those now proposed for the Budget of 1917-18:—

[In millions of pounds.]

	Revised, 1916-17.	Budget, 1917-18.
Gross receipts	41·7	41·3
Working expenses, including payment of surplus profits to Companies.	20·8	21·7
Net receipts	20·9	19·6

“As regards gross receipts, it will, I think, be reasonably cautious to assume that, in present conditions, the takings of next year, though they are not likely fully to equal those of 1916-17, will not fall far short of them. I propose therefore to put the gross receipts at about £400,000 less than the estimate of the current year, but to increase working expenses by £900,000, this increase being due to the fact that further expenditure is necessary, both under ordinary working expenses and special renewals, to enable the railways to cope with the abnormal increase of traffic which they have had and will have to carry under existing conditions. Allowing for some minor items which enter into the final Railway figure, the effect is a falling-off of £1·2 million, as compared with the Revised Estimate for the current year.

“53. The other Revenue factors are likely, as a whole, to give us about £400,000 less than in the current year; but there are some important variations under individual heads. Under *Interest* receipts, we expect an additional £1 million owing to increased investments from the Paper Currency Reserve, and this improvement would have been greater but for the fact that, in pursuance of the scheme which I

[1ST MARCH, 1917.]

[Sir William Meyer.]

explained in paragraph 12, we propose to set aside an additional £200,000 next year for the Paper Currency Depreciation Fund. We shall thus in two years have contributed some £600,000 towards making good the difference, amounting to a little more than £1 million, between the original purchase price of our consols holding in the Paper Currency Reserve and its value at current prices. As present conditions are unfavourable to any very large sale of consols, the sums thus set aside have the effect for the time being of a loan to His Majesty's Government, in whose securities they will be invested until consols are actually sold and the money required to cover the loss is transferred from the Depreciation Fund to the Paper Currency Reserve.

"54. As regards the remaining heads which call for remarks :—

"(1) Under *Opium* we expect an additional £236,000 from increased sale of medicinal opium, and the higher prices which it is likely to fetch next year.

"(2) *Salt* receipts are taken at £813,000 less than in 1916-17 owing to heavy clearances and payments of duty this year in Northern India in advance of actual consumption.

"(3) Under *Customs*, we provide for a decrease of £694,000, allowing for the fact that, as the war goes on, freight is likely to be scarcer, and that imports may be affected by the further activity of the belligerent nations and the production of war material. The decrease is distributed over most of the important tariff sub-heads, but is particularly large in the case of cotton manufactures and manufactured articles, and is of special interest in the case of silver where we have to take our total receipts at about £30,000 only as compared with the yield of £½ million to which we had grown accustomed in normal times. The export trade, again, is likely to be prejudiced by the existing exchange difficulty, and possibly by special restrictions on imports into the United Kingdom such as those recently announced in the case of jute and tea. The decline in the case of jute would in fact have been much larger but for the fact that the effect of the exemption of forward contracts, which was allowed when the export duty was first imposed, is now spent.

"Account has been taken of the measures recently adopted to decrease the consumption of petrol in India. These measures, which consisted in prohibiting the import of motor cars otherwise than on behalf of Government or under special license, and the imposition of an excise duty of 6 annas a gallon on locally-produced petrol, with a like addition to the existing customs duty on imports, were taken at the request of His Majesty's Government in order to conserve the supply as far as possible for war purposes and to economise freight, and their financial effect is slight. We estimate that the petrol tax will give us an income of £150,000, from which £90,000 must be deducted for loss of customs duties on motor cars.

"(4) *Posts and Telegraphs* show an increase of £169,000 by reason of normal development, and the estimated operation of the recent raising of minimum charges in respect of telegraph messages.

"(5) The falling-off of £486,000 under *Mint* is due to the omission of the special receipts obtained this year from the coinage of rupees. Coinage will be necessary next year also, in so far as we can get the silver, but any estimate of the amount would be absolutely speculative and, following the accepted practice, we refrain from any specific assumption of revenue from this source.

"(6) Taking *Land Revenue, Stamps, Excise and Income Tax* together, there is an increase in the Imperial shares of £814,000, on the assumption that there will be a continuance of the present generally favourable agricultural and economic conditions.

"(7) The head *Miscellaneous* shows an increase of £109,000, which is brought about in connection with the profits made on our wheat scheme, the operation of which terminated on the 31st of March last. These profits, which have now been definitely worked out to £158,000, have hitherto been kept in deposit until the time came when we could fitly utilise them, as it was intended they should be utilised, in special non-recurring expenditure in connection with agriculture, since the operation of the wheat scheme had depressed prices which would otherwise have risen to the benefit of the agriculturist. We are not yet in a position to make a definite allocation of this amount, but expect to be able to do this within a fairly short time, so that we can now safely take this sum to our regular receipts and debit it on the expenditure side for allotment to Local Governments.

[*Sir William Meyer.*]

[1st MARCH, 1917.]

" 55. On the Expenditure side, a head which calls for special reference is *Military Services*. The net cost of these has been taken for 1916-17 at about £25·4 million, and for 1917-18 we have to raise this to £25·9 million.

" We make a provision (as we did in the Budget of the current year) for a reserve to meet unforeseen requirements which we at present fix at about £700,000. We already have certain demands upon this sum which cannot yet be definitely allocated, so that the effective reserve is rather less than £½ million. We allow £400,000 for application during a full year of the concessions in regard to free rations to sepoys and larger pay to the higher ranks of the Indian Army referred to in paragraph 14 (G). We also provide £60,000 for the increase in Indian Army pensions announced on 1st January with retrospective effect from the beginning of the war. On the other hand, we are only providing £550,000 to complete our requirements of additional rifles and ammunition referred to in paragraph 14 (1) against £936,000 in the current year, and we are also allotting £100,000 less for frontier roads next year.

" Other variations under the Military heads balance each other.

" 56. Our estimates also show a further increase of £150,000 under *Political* expenditure, arising from the war and its effects on the situation in Persia; and we make an additional provision of £310,000 for *Opium* outlay in consequence of an increase in the area to be cultivated with poppy in the United Provinces and in the rate of payment to cultivators.

" 57. The only other item I need single out for special mention in the present summary of our transactions is a special recurring grant of £200,000 which we propose to allot, from next year onwards, for improving the training and pay of teachers in primary and secondary schools. We hold that such an improvement in respect of teachers is an essential preliminary to further educational reform, and although present circumstances prevent our doing much in this direction, we desire by this grant to give an earnest of our intention to make more liberal provision for education when peace and prosperity return. With the exception of a small sum reserved for direct application from Imperial funds, the whole of this grant will be distributed to the provinces, and provision has been included in the estimates for the necessary assignments to them through the head 'Transfers between Imperial and Provincial revenues.' The variation in the amounts of the assignments due to this cause is, however, obscured by the omission from the Budget of 1917-18 of special non-recurring assignments to some Provinces included in the Revised Estimates for the current year, and of the assignments in connection with the present arrangements for the incidence of famine relief expenditure for reasons set forth in paragraph 108 below.

" 58. As I have said, I calculate that next year we shall, on the present basis of taxation, have a surplus of about £2½ million; but we have now to take into consideration the fact that, as already explained (paragraph 49), we propose to make, on behalf of India, a special contribution to the Home Government for the cost of the war which, in one way or another, will run eventually to £100 million. That requires us to undertake, with effect from 1917-18, an annual charge of about £6 million. For the present this sum is taken against the *Interest* head, the question of its eventual allocation being reserved for further examination, when the advisability of constituting a special War Contribution head will be considered.

" In order to meet this liability we have thus to raise more than £3 million in additional taxation.

" 59. Before coming to the actual methods by which we propose to raise this amount, I will clear the ground by indicating other possible courses which we have not thought it advisable to adopt. *Prima facie* a natural, and administratively easy, way of raising fresh money would be by enhancement of the salt tax, since the tax, although it was slightly increased last year, is still below the figure at which it stood in 1905 and much below that in force up to 1902; and as I said in my last year's speech, its increase is a legitimate measure when war or other financial dislocations come upon us. There would indeed in some respects be a special suitability, if the salt tax has at any time to be further enhanced, in choosing the present occasion: for, in the matter of assistance in the financing of this great war, I do not think that even the humbler classes in India can completely stand aside; and there is no doubt that, whatever appeal we may make to the small investor through suitably

[1ST MARCH, 1917.]

[Sir William Meyer.]

devised loan arrangements, the classes we can thus reach must, at the best, be relatively small compared to this country's vast population. This expedient of raising funds is, however, ruled out of account in present conditions by the high price of salt to which I have already referred. The present pitch of prices is itself an indication that a moderate duty is by no means the main factor in determining the cost to the consumer; but a moment when prices are abnormally high is not the time for adding to the tax as well.

"60. Another possibility is the raising of money in excess of our existing land revenue through the medium of a special cess upon land. Such a course would be justifiable by war conditions, and by the further fact that, over a great part of India, it would merely restore the position which prevailed prior to the repeal of the Famine and Patwari cesses in the years 1905-1907. We have decided, however, that this would not be at present desirable. Though we do not in any way admit that our land revenue assessments are other than most moderate, we prefer, so long as this is possible, to leave the enhancement or imposition of special cesses as a sphere of taxation suitable for local boards, in order to assist these in developing such beneficent expenditure as that connected with education, sanitation, medical relief and local communications. It must be understood, however, that while we refrain on the present occasion from imposing additional Government taxation on agricultural incomes, we can give no pledge that we shall refrain from doing so hereafter should future necessities oblige us to take this course.

"61. Another method which would *prima facie* be appropriate to present conditions is the levying of a large excess-profits tax on industrial and commercial profits which have been specially enhanced by reason of the war. On full consideration, however, we have decided that this would not be advisable. In the first place, as we know from the experience obtained in England, the fixing of what are normal profits and what consequently may be considered excess gains, which must vary with reference to particular trades and even in respect of the circumstances of individual firms or companies, is a very difficult matter; and it has only been found possible to apply it with a fair amount of equity at home—though even there there has been much trouble and criticism in particular cases—by reason of the very efficient and elaborate income tax machinery already existing, and by the appointment of special expert boards of reference to deal with disputable cases. In India we lack both the elaborate administrative machinery and the material for impartial and authoritative boards. Secondly, an excess profits tax is obviously only a temporary measure, which cannot be continued when the war is over, whereas what we need is a more permanent source of revenue. While we have had consequently to reject this solution, we shall be able to secure an appreciable portion of the excess profits that have lately accrued in connection with the war by the method of taxation I now put forward.

"62. In the present year's Budget we enhanced our rates of income tax, and these now run on a graduated scale from 4 pies in the rupee to one anna, which last sum becomes payable on incomes of ₹25,000 and over. We now propose to supplement the ordinary income tax by a super-tax on the largest incomes such as has been in force in England for several years past. That is, the ordinary rates of income tax will remain unchanged, but people having incomes in excess of ₹50,000 per annum will pay a super-tax in addition. We thus leave the bulk of the existing assesses alone and lay the burden we are about to impose on the shoulders of the rich, who are best able to bear it, and many of whom have made large profits owing to the war.

"The super-tax will begin, as I have said, in respect of income exceeding ₹50,000 and will then be levied in an ascending scale as shown below:—

For every rupee of the first ₹50,000 of the excess, <i>i.e.</i> , between ₹50,000 and 1 lakh	1 anna per rupee.
For every rupee of the next ₹50,000 of the excess, <i>i.e.</i> , between ₹1 and 1½ lakhs	1½ annas per rupee.
For every rupee of the next ₹50,000 of the excess, <i>i.e.</i> , between ₹1½ and 2 lakhs	2 annas per rupee.
For every rupee of the next ₹50,000 of the excess, <i>i.e.</i> , between ₹2 and 2½ lakhs	2½ annas per rupee.
For every rupee of the remainder of the excess, <i>i.e.</i> , on everything over ₹2½ lakhs	3 annas per rupee.

[Sir William Meyer.]

[1st MARCH, 1917.]

"These rates will be in addition to the one anna income tax, so that a person possessing an income exceeding Rs. 2½ lakhs will pay in all a rate of 4 annas per rupee (equivalent to 5s. in the pound) on that excess; while as regards each half lakh making up the first Rs. 2½ lakhs he will pay rates varying from 1 anna (*i.e.*, ordinary income tax alone) on the first to 3½ annas on the last. He is still favourably situated as compared with the wealthy taxpayer in England whose ordinary income tax would reach 5s. in the pound, while the super-tax might extend to anything up to 3s. 6d.

"63. The introduction of a super-tax, assessed with reference to the individual's combined income from all sources, makes it necessary to improve our existing machinery so as to enable the assessing officer to require a person who may be *prima facie* liable to the tax to declare his income from all sources, under penalty in the event of false declaration. We were in any case meditating the introduction of this procedure in respect of the ordinary tax to avoid the leakage which is already recognised as taking place under the existing Income-tax Act. I shall accordingly propose legislation to-day, providing for the levy and assessment of super-tax, and amending the existing Income-tax Act in the direction above indicated.

"64. We desire on this occasion, as was the case last year, to confine our present legislation to what is essentially needful in order to carry out the scheme of taxation proposed. I fully recognise, however, that our income-tax machinery requires to be brought up to date in other respects also so as to cope with the altered state of things which has arisen since the Act of 1886 was framed. I hope to be able to take this in hand before long, but it would not be fair to ask the Council to pass subsidiary legislation of this sort with the haste required on the present occasion.

"Lastly, I may say that while 'Income Tax' has hitherto been a divided head, the super-tax receipts are all required for Imperial purposes, and in order to avoid the complication of adjustments with the provinces such as were effected this year in connection with the addition to taxation then made, we propose to place super-tax receipts under a special sub-head which will be entirely Imperial.

"65. The materials for an estimate of the probable yield of the super-tax are not as adequate as we should have wished owing to the fact that under the existing Act the profits of companies and interest on securities are assessed to income-tax at the source without reference to their ultimate destination, so that we have no particulars of their distribution between people who will in future be liable to the super-tax and those who will not be liable. On such information, however, as we can obtain we take the probable yield at £1,350,000.

"66. The next source from which we propose to raise revenue is the export tax on jute. This was imposed in the current year at the rate of R2-4-0 per bale of 400 lbs. in the case of raw jute, with a special rate of 10 annas per bale on cuttings; and as regards manufactured jute at R10 per ton on 'sackings' and R16 on 'hessians.' Having regard to India's monopolist position in respect of jute production, which enables taxation to be normally passed on to the consumer, we propose to double the rates above mentioned and thus to obtain an additional revenue of £500,000. This figure would have been higher but for the present freight and exchange difficulties, and the recent restriction on export to the United Kingdom. In making this estimate we have allowed for the exemption of jute, whether raw or manufactured, exported in pursuance of War Office contracts and, as was done in the current year, we propose to exempt from the extra duty forward contracts which have been entered into before the present date and which do not contain a provision for enhancement of price with reference to any future increase of duty.

"67. The taxation already described will yield us in all £1,850,000. The way in which we propose to make the bulk of the remaining provision required is one which will, I think, be received with satisfaction in this Council and in the country generally, while the incidence of the tax will be of much more general application than that of the imposts above described. It will be remembered that in introducing the Financial Statement for the current year, I said that we had been anxious to raise the duty on imported cotton goods, while leaving the cotton excise duty, which has formed the subject of such widespread criticism in this country, unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are

[1ST MARCH, 1917.]

[Sir William Meyer.]

more favourable. But His Majesty's Government held that in the then circumstances such a course would be undesirable, and decided to leave the cotton duties question to be considered later on 'in connection with the general fiscal policy which may be thought best for the Empire and the share, military and financial, that has been taken by India in the present struggle'. To-day I am able to announce that in view of the taxation required to make our war contribution worthy of India and of the place we desire her to hold in the Empire, His Majesty's Government have now given their consent to our raising the import duty on cotton goods from $3\frac{1}{2}$ per cent. as it now is, to $7\frac{1}{2}$ per cent., which is our present general tariff rate. The cotton excise duty will remain at $3\frac{1}{2}$ per cent. There can be no question of our doing away with an impost which is estimated to produce about £320,000 next year at a time when we have to impose extra taxation. By this means we estimate that we can get an additional £1 million. I am sure that the action of His Majesty's Government, following as it does on their recent association of India with the special Imperial Conference called in connection with the war and the measures to be taken thereafter, will meet with the greatest appreciation in India.

"68. For reasons which I explained in my last year's speech (paragraph 50) in connection with the increase of customs duties then proposed, the enhancement of duties above indicated in respect of imported cotton goods and jute exports must come into effect at once, and I shall, during the present sitting, introduce a Bill embodying the legislation required. The application of these duties during the current month will yield about £80,000 and the receipt figures of the Revised Estimate must be added to accordingly. This has been done in the statement in paragraph 70.

"69. Finally, we have decided to impose, as a war measure, a surcharge on railway goods traffic at the rate of one pie a maund on coal, coke and firewood and two pies a maund on other articles. We have advisedly taken a low uniform rate so as to avoid, as far as possible, the necessity for special adjustments in regard to short distances or particular classes of traffic. Some details in respect of this taxation are still under consideration, but the action necessary in connection with its imposition will be taken as soon as possible. The yield is estimated approximately at £ $\frac{1}{2}$ million, and we thus obtain the amount that we require to finance our War contribution, and leave ourselves with a surplus £130,000, which is little enough having regard to the circumstances of the time.

"70. I am now in a position to give a statement, superseding that shown in paragraph 51, which includes, as regards Imperial transactions, our war contribution of £6 million and the additional taxation of £ $3\frac{1}{2}$ million we propose to raise.

[In millions of pounds.]

—	Revised, 1916-17.			Budget, 1917-18.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue	64·883	31·951	96·834	66·563	32·288	98·851
Expenditure	59·065	30·390	89·455	66·433	32·366	98·819
Surplus + or Deficit (—) .	+5·818	+1·561	+7·379	+·130	—·098	+·032

Revenue and Expenditure—Provincial.

"71. The Provincial revenues are taken in the new Budget at £32·3 million and the expenditure at £32·4 million, the deficit, to be met by drawings on Provincial balances, being thus restricted to about £100,000.

"An increase of revenue is anticipated in all the provinces, except the United Provinces and Bihar and Orissa. In the former case the current year's revenue has

[*Sir William Meyer.*]

[1st MARCH, 1917.]

been inflated by extra receipts from irrigation, the demand for which, owing to good rainfall, is expected to decline in the coming year. The reduction in Bihar and Orissa is nominal, being due to the non-recurrence in the Budget of 1917-18 of a special assignment from Imperial revenues for the new High Court buildings, which was included in the Revised Estimate of the current year. Provision has been made in all provinces for a substantial increase of expenditure.

"I have once more cordially to acknowledge our obligation to the Local Governments for their continued assistance in carrying out the policy, which the war has forced upon us, of conserving our balances and refraining from new expenditure which is not immediately necessary or remunerative. The extent of this co-operation is indicated by the substantial growth of Provincial balances in the current year and the very small amount which the Local Governments propose to draw from them in 1917-18.

1917-18—Ways and Means.

"72. Allowing for the fact that the proceeds of our War Loan in India will be given to His Majesty's Government and thus appear as expenditure also, the only items in connection with our Ways and Means programme which require special mention are the following :—

	£ million.		£ million.
<i>Outlay.</i>		<i>Resources.</i>	
Provincial deficit	0.1	From balances	1.1
Capital expenditure—		Imperial surplus	0.1
Railways	3.6	Unfunded debt	2.0
Irrigation	0.6	Special war receipts	0.6
Delhi	0.3	Credit for silver purchased in	1.7
Discharge of debt	0.9	1916-17.	
	—		—
TOTAL	5.5	TOTAL	5.5

"73. The circumstances which militate against any large capital outlay on Railways still continue. We hope to provide £3.9 million for expenditure in 1917-18, but it is anticipated that the sum brought to account will be reduced to £3.6 million by the further issue of stores for war purposes. The amount allotted for lines under construction is £94,000 mainly for the Nushki Extension, which has been undertaken for military purposes and partly completed in the current year. The balance of the programme provision will be devoted to open line works, and owing to difficulties in obtaining materials from Europe, the outlay in India will be mainly on works requiring a minimum of imported materials.

"The provision for Irrigation closely follows the actuals of the current year and represents the full amount which the Local Governments and the irrigation authorities can arrange to spend in the coming year. In the case of Delhi we are again providing a minimum amount.

"The allotment under "Discharge of debt" provides for the further discharge of India Bonds as they fall due in ordinary course in 1917-18, and for the repayment of a temporary loan of R50 lakhs which His Highness the Maharaja Sindhia patriotically offered at the commencement of the war.

"74. Coming to the Resources side, I have already referred to the Imperial surplus which is set off by an almost equivalent Provincial deficit. The estimate under Unfunded Debt allows for some increase of postal savings bank deposits during the year, and also for the receipts of certain Railway Provident funds which will shortly be taken over by Government. The special war receipts mainly represent the further proceeds of the hire of enemy ships.

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

"75. In addition to the receipts above mentioned, we shall also recover £1·7 million which, as I explained in an earlier part of my speech, represents the unadjusted value of silver purchases towards the end of the current year, while we draw to the extent of £1·1 million on the cash balance of £18·1 million which we expect to have at the end of the current year. Thus we expect, after providing for the liabilities enumerated above, to close the coming year with a cash balance of £17 million, of which £5·2 million will be held in England and £11·8 million in India.

"This result is based on the assumption that we shall have to incur in India about £37½ million of war expenditure recoverable from His Majesty's Government, and that our war loan operations will enable us to raise not less than £10 million—I shall be only too happy if it proves to be more—which amount the Secretary of State must disburse to His Majesty's Government at home. We should thus put him in funds to a net amount of £27½ million. With this amount of net remittance and by drawing on his cash balance to the extent of £½ million, he will be able to provide £22·5 million for his ordinary expenditure in London inclusive of capital expenditure and the usual instalment in discharge of India bonds, and about £5·4 million in respect of the war contribution, the remainder of the £6 million provided for that contribution being charged off in India as interest and discount on our war borrowing.

"It will be observed, then, that in the coming year we expect that the remittance requirements of the Secretary of State will be met by his recoveries from the War Office without resort to Council drafts. This does not of course imply that Council drafts will not be sold to meet the demands of trade. The Secretary of State will meet such demands as far as he can without undue depletion of our resources; but his drawings will have to be specially financed by fresh purchases of silver or through the Paper Currency Reserve so far as these can meet them, and it is hardly necessary to say that, in the difficult circumstances of the time, the usual reservation as to the complete discretion of the Secretary of State in this matter applies in a very practical way.

Our War Loan Arrangements.

"76. I now come to our proposed war borrowing, the proceeds of which are to form a contribution from India to His Majesty's Government. We have been somewhat criticised for not stating our terms earlier and coming into the market concurrently with the Home Government. I need hardly say that this has not been due to any conventional wish on our part to reserve all financial announcements of public interest for the Financial Statement: we would gladly have come forward earlier if that had been possible. The slight delay is due to the fact that we had to consider very carefully what terms to offer, and how to make our proposals most attractive, and this had to be done in close consultation with the Home Government who have a predominant interest in the results. We were already considering the matter before the British War Loan was announced, and I discussed it confidentially in Calcutta in January with representatives of the Presidency Banks. But any conclusions so reached could only be provisional and had all to be reconsidered in the light of the Home Government's terms, which were not then within our knowledge.

"We are pledged to giving terms not less liberal ourselves, and desire to discharge that pledge fully. Independently, too, of what the particular Home terms might be, we had to consider what form of borrowing was best suited to Indian conditions and most likely to make it possible for patriotic supporters of our loan throughout the country to give a maximum response. Finally, we have to create opportunities for the small investor—a class which has been too neglected in India. We want to cover the whole field, and leave no class of investor unprovided for.

"77. I may say at once that in this matter we feel no hesitation in imitating closely the methods of the Home Government. Their recent loan was on a long-term basis, but prior to its issue they were borrowing considerable sums by Exchequer Bonds with a few years' currency and carrying five, and eventually six, per cent. interest. Concurrently with this there was a system of war saving certificates under which the deposit of a small sum accumulating at compound interest entitled the lender to a handsome return at the end of five years, while he could always get his certificate cashed if he needed money before the five years were over. We propose to

[*Sir William Meyer.*]

[1ST MARCH, 1917.]

offer opportunities for lending in all these three forms; and in the case of the long-term loan we must also offer some opportunity for the conversion of $3\frac{1}{2}$ per cent. and 3 per cent. paper in pursuance of the promise which I gave last year. Going beyond this promise, we also intend to allow the conversion of holdings in the 4 per cent. loan of 1916, so that those who supported us on that occasion may not feel that they have been left at a disadvantage.

"78. We shall publish our Loan Notification to-day, and I will lay it on the table on the conclusion of my speech. But some general explanation of our scheme will, I think, be helpful to the Council and to the wider public outside.

"The Home Government's recent long-term loan was in two forms: one was a loan issued at 95 and carrying 5 per cent. interest, the interest return being liable to ordinary income tax (save in the special case of holders living outside the country) as well as to super-tax. The other was a loan issued at par and carrying 4 per cent. interest, the interest being exempt from all ordinary income tax, present and future, but not from super-tax. We propose that our long-term loan shall be in the first of these two forms, and shall have the same currency as the British loan, *i.e.*, that it must be discharged in 1947, but may be repaid, on due notice, at any previous date from 1929 onwards. The loan being issued at 95, the nominal rate of interest is really a full $5\frac{1}{4}$ per cent., without regard to the further gain in capital when the loan is redeemed. This form of borrowing should, we think, prove attractive to those who are anxious for a long-term investment. We have not thought it desirable, having regard to the much lower rate of interest which the Home Government have attached to their income tax-free loan, and to the danger of perplexing the public by a needless variety of options, to offer this alternative in the long-term form. But those to whom freedom from income tax is a desideratum will find their wishes met by the terms we offer for short-term bonds.

"79. As regards conversion terms, having conceded a rate of interest equivalent, as I have explained, to $5\frac{1}{4}$ per cent., we cannot, of course, as we did last year in connection with our 4 per cent. loan, give further attractions, equivalent to a substantial indirect addition to the main rate of interest, through the fixation of the conversion rates. We are going as high as we can in taking a practical $5\frac{1}{4}$ per cent. rate, and must value the paper to be converted at a figure approximating much more closely than was arranged last year to its true market value as determined by the higher rates of interest now established in India and the world generally. We have also to take into account the fact that the new loan will not be issued at par but at a discount of 5 per cent. Taking these factors into consideration, the conversion rates we have fixed as fair are that every ₹100 of the 4 per cent. loan shall be accepted as equivalent to ₹92 of our new loan, while the corresponding rates for the $3\frac{1}{2}$ and 3 per cent. paper will be ₹76 and ₹65 respectively. I am speaking in each case of face values. Thus, to take a single example, a person who has obtained conversion rights entitling him to convert ₹600, face value, of $3\frac{1}{2}$ per cent. paper will have that paper converted into our long-term loan at ₹456. But it must be remembered of course that the loan is only issued in denominations of ₹100. Consequently, while the holder can obtain ₹400 in any case, he can only obtain ₹500 by subscribing the cash equivalent of ₹44 (nominal) of the new loan, and for the sake of simplicity we shall fix the cash discount at one anna per rupee of nominal value. The necessity for such cash payments will of course be greatly obviated in the case of large holdings of old paper. Thus, a man who has conversion rights of ₹60,000 of old $3\frac{1}{2}$ per cent. paper could obtain for this ₹45,600 of our new loan, and need not put up any extra cash at all. Further, persons who wish to reduce their cash payments will often be able to do so by selling part of their conversion rights.

"80. I am sorry that this business of conversion involves arithmetical complications which make it difficult for the smaller investor to follow the intended procedure. There is no possibility of evading this complexity altogether, and that is another, and I think a quite imperative, reason why the main attractions of our loan must be concentrated in the substantive terms. We cannot afford to hide them away in conversion rates, the true significance of which will only be realized by persons accustomed to the rather difficult calculations involved in valuing them. Our loan

[1st MARCH, 1917.]

[*Sir William Meyer.*]

must stand or fall on the plain straightforward terms which everyone can understand and pass on to his neighbour, though we are as a matter of fact giving better conversion rates than recent market quotations of our old paper would have suggested.

"We are avoiding, or at any rate mitigating, one complication incidental to last year's procedure and that is in the manner of defining the amount of paper which a given subscription will enable a holder to convert. Last year the formula was that a subscriber of a given amount to that year's loan could tender such amount of paper as, when converted at the prescribed rate, would yield a further amount in the new loan equal to that already purchased. This involved troublesome calculations and adjustments in regard to broken sums. This year we are adopting a simple uniform rule which repeats, and indeed in this respect goes beyond, the privilege conceded last year, but does not entail any difficult calculation. The rule will be that for every $\text{₹}100$ face value of new paper issued, $\text{₹}150$ face value of old paper may be converted, whether it be 4 per cent., $3\frac{1}{2}$ per cent. or 3 per cent.

"We are also, as the example I have given will have shown, simplifying the rule for the calculation of the cash amounts to be paid to make up exact multiples of $\text{₹}100$ in the paper obtained by conversion.

"Finally, to avoid any future misapprehension, I may explain that, as stated in the Notification, the amounts to be handed over to His Majesty's Government will be the cash subscriptions which represent new money. The nominal amount of the loan will of course be augmented by old paper tendered for conversion, but this will not yield us any fresh assets.

"81. We intend also, in connection with this long-term loan, to establish a special sinking fund similar to that promised in connection with the recent British War Loan. The arrangement there was that $\frac{1}{8}$ th per cent. monthly should be set aside for re-purchase of scrip of the new loan as long as the latter remained below par. This amounts to $1\frac{1}{8}$ per cent. of the capital amount per annum. We similarly promise to apply $1\frac{1}{8}$ per cent. per annum in the same way; but we do not undertake a monthly amount, as with the narrowness of the Indian market and its marked seasonal variations, this would not be entirely suitable.

"82. To sum up then, the first option which we offer to the public is a long-term loan issued at $\text{₹}95$, with interest at 5 per cent.; redeemable from 1929 onwards and in any case not later than 1947; supported by a special sinking fund; and carrying conversion rights in respect of all our existing long-term issues. That is the offer we make to the man who desires a semi-permanent investment.

"83. We feel, however, that this will not do for the banks and financial houses as well as many others who are willing to make a great effort in support of the War Loan but cannot, in justice to themselves, afford to lock up their money for an indefinite period. Indeed for such persons even a five year period may be too long. What we want to get is a maximum response, and we wish therefore to meet every requirement. We propose, therefore, also to issue short-term bonds, with three or five years' currency at the option of the purchaser and carrying a very attractive rate of interest. We originally proposed to fix this at 6 per cent. with liability to income-tax, but on expert advice as to the importance attached to freedom from income-tax present and future, we have decided to adopt an income-tax free rate of $5\frac{1}{2}$ per cent. But—and here we follow the precedent set by the Home Government in respect of their *ex-income-tax* borrowing—we do not extend this exemption to super-tax.

"84. Both the long-term and short-term issues will be open for subscriptions on the 15th of this month, and applications will be receivable up to the 15th June. They can be put in for sums of $\text{₹}100$,* and multiples thereof, at any district treasury, as well as at the offices of the Accountants General, the provincial Comptrollers and the Controller of Currency, and the head and branch offices of our Presidency Banks.

"In order to give ample facilities to people who desire to subscribe a good deal more than they could conveniently put up at any one time, we propose that all subscriptions of $\text{₹}200$ and upwards shall, at the option of the subscriber, be payable

* This represents face value in the case of the long loan.

[*Sir William Meyer.*]

[1st MARCH, 1917.]

in five instalments, the first being paid on the date of subscription, while the other four will be liquidated by successive monthly payments. Further particulars will be found in the Loan Notification, and it will suffice to say here that under those arrangements the loan will remain open as regards final payments up to the 15th October, when the last instalment due on applications made in June will fall in.

"85. As was done last year, we shall give brokerage to the amount of $\frac{1}{8}$ per cent. on new subscriptions to our loans, whether of the long-term or short-term issues, which are received through banks and recognised brokers. But this commission will not extend to conversion amounts.

"86. As has been the case in the last two years, there will be a special Post Office section of the loan, which will be open alike in respect of the long-term and short-term issues, and to which subscriptions will be receivable at all post offices which do business as savings banks.

"The provisions will be found in the Loan Notification, and I need only say here that, to suit small investors, the Post Office will receive subscriptions in units of R25 instead of in multiples of R100 as in the case of the ordinary section. This will render it unnecessary to introduce the complications of instalment payments into the Postal section of the loan; while, on the other hand, in order to allow full scope for payments, that section will remain open until the 15th October. This will enable people who are able to do so to make more than one investment.

"87. We are also adopting a further method, which is intended to be a permanent measure, to bring the Government into relation with investors of a smaller class than it has hitherto reached, and which will have no time limit in respect of contributions thereby receivable.

"Some of you may remember that when I visited Bombay at the beginning of August last my hon'ble friend Mr. Wacha, on behalf of the Indian Merchants' Chamber there over which he has so worthily presided, drew my attention to the desirability of issuing Government paper in quite small amounts to humble investors, and I replied as follows:—

"As you recognise, my policy since I took up my appointment has been in the direction of bringing Government into closer contact with the small investor, and I have already taken steps in the direction of improving the rules which regulate investment through the Post Office, and allowing larger sums than previously to be held in this way, and by the Post Office section of our loans, which will now, I trust, be a recurring feature of these. I should like, however, to go further and have Government Promissory Notes in small amounts which can be purchased at any time without any delay or complications. . . . Such a scheme, however, requires very careful consideration, since an analogous measure—the stock-note scheme of 1882—proved a complete failure, owing largely to the fact that subsequent depreciation of Government paper rendered these notes transferable only at a loss. Moreover, the interest payments were necessarily very small and accrued yearly. Before embarking on any fresh scheme, I shall have to consider the matter very carefully, and see how we can avoid any like fiasco."

"88. I have subsequently given the matter very full consideration, and after consultation with those best able to advise, and study of the method adopted by the Home Government in respect of their postal war-savings certificates, I am now in a position to announce the following scheme, which has received the assent of the Secretary of State.

"It is proposed, with effect from 1st April, that small Government bonds or certificates of the eventual value, after five years, of R10, 20, 50, and 100 shall be constantly on sale at post offices, and that the amounts for which they can be purchased shall be so fixed that the amount repaid at the end of five years, that is the full face value of the certificate, shall represent a return of about $5\frac{1}{2}$ per cent. compound interest. Thus, a R10 certificate will be purchasable for R7-12-0, a R20 certificate for R15-6-0, a R50 certificate for R38-12-0, and a R100 one for R77-8-0.

"89. In view of the special privileges attached to these certificates, and to keep them in the hands of the class for whom they are meant and prevent them being bought up by speculators and large capitalists, the Government will not allow transfers of the certificates, except under special permission of a Postmaster-General,

[1ST MARCH, 1917.]

[Sir William Meyer.]

or sell a larger amount than **Rs 7,500*** to any one person. But the holder can obtain their repayment on demand at any time within the five years at the post office from which they were issued, or at some other office if he has in the meantime obtained transfer of his holding thereto. Hence we style them 'Cash Certificates' in the Notification. In order, however, to encourage the holding of the certificates for the full time, interest will not be allowed on withdrawals within the first year, while as regards those made subsequently, the interest, which will be calculated every three months, will be on an ascending scale, beginning at 4 per cent. in the first year and running up to 6½ per cent. in the last. The following specimen table for a **Rs 10** bond shows how this system will work out as regards whole years, and the gradual increase in value of the original investment.—

		R	A.	P.
Amount paid on purchase		7	12	0
Due at the end of 1st year		8	1	0
Ditto 2nd "		8	7	0
Ditto 3rd "		8	14	0
Ditto 4th "		9	6	0
Ditto 5th "		10	0	0

The amounts paid on these certificates will be free of income tax, and the certificates will be kept, if the holder so desires, in the custody of the Postal Accountant General.

"When a certificate is presented for repayment or discharge at the end of five years, the holder will have the option of taking the full amount due to him in cash or of reinvesting it, wholly or partly, in a fresh certificate, and I trust that this method of re-investment will be more and more resorted to as time goes on.

"90. This scheme avoids the main faults that wrecked the Government stock-note experiment in the early eighties, which was in effect merely an attempt to apply the conditions of an ordinary irredeemable loan to very small subscriptions. The investor gets a liberal compound-interest return for his money in addition to his original payment if he keeps his money with Government for the full five years' period, while if he desires to withdraw at any time within that period he can do so, and is still assured of getting back what he originally paid, with (after the first year) a good and increasing rate of interest; and both the investor and Government are saved the trouble of constant periodical payments of petty interest amounts.

"91. I do not, of course, overlook the fact that the petty investor can already purchase Government paper through the post office in sums as small as **Rs 10** at a time, but the advantage of the present scheme is that he can invest more directly and simply, and that, as I have said, he is secure against any fluctuations in the value of Government paper. The scheme is one which has been evolved for permanent application, and though it would be unduly sanguine to suppose that it will attract large amounts at the outset, I hope that it will become increasingly popular as time goes on, and its advantages are more fully appreciated. In the coming year, however, anything that we get from this scheme will, like our ordinary borrowings, be handed over to His Majesty's Government, and it is with this course in view that we have fixed so high an interest return. It is possible that in years to come certificates of this type will be issued on a lower interest basis, and what I said a moment ago as to the holder of an expiring certificate being able to take out a fresh one is of course qualified by this condition.

"92. I mentioned last year that we had decided, for the convenience of investors in large business centres, to introduce a new form of Government security in the shape of bearer bonds. The introduction of these bonds, with coupons attached, has been approved by the Secretary of State, and they will be issued in denominations of **Rs 100, Rs 50, Rs 1,000, Rs 5,000** and **Rs 25,000** as soon as the requisite forms are received from England.

"Bearer bonds will be freely exchangeable for any other form of security and *vice versa*: but as a matter of administrative convenience, their issue in respect of past loans will at present be confined to the 3½ per cent. loan of 1854-55, and the loans of 1915-16 and of the current year. Holders of any 3½ per cent. loans can, however,

*This sum will be additional to the maximum amounts fixed for the holdings of ordinary Government paper through the Post Office, and for deposits in the Post Office savings banks.

obtain bearer bonds by having their holdings simultaneously transferred into the loan of 1854-55. Similarly, holders of the 3 per cent. loan of 1896-97 will be able to obtain bearer bonds by conversion of their holding into the 1854-55 loan on the terms on which the Government of India authorised the conversion of 3 per cent. paper into the 3½ per cent. loan of 1900-01.

“93. The following are other measures which we have taken in the course of the year to facilitate transactions in connection with Government loans :—

“(1) To enable subscribers to our conversion loan of the current year to take advantage of the system of holding Government debt in the form of stock certificates, the conveniences of which were separately explained in a Notification, we offered applicants the option of obtaining such certificates on direct subscription to the loan, instead of the ordinary promissory notes negotiable by endorsement. Advantage was taken of this new feature of our loan procedure to the extent of ₹ 1½ crores.

“(2) In order to facilitate investment in existing Government securities by people residing in the *mofussil* to whom the Post Office rules may not be convenient or applicable, we have allowed such persons to deposit the purchase money at district treasuries and obtain remittance transfer receipts, free of charge, on a Presidency Bank.

“(3) We have taken steps to enable the Presidency Banks, as Public Debt Offices, to waive, without undue loss to themselves, some of the formalities that have hitherto obstructed the transfer of Government promissory notes, as for instance inconsistencies in the spelling of names.

“(4) We have simplified the Post Office investment rules and raised the limit up to which such investments will secure exemption from income tax to ₹15,000.

“94. Finally, I repeat that we put no limits on the amounts we are prepared to receive on the present occasion in the way of loan subscriptions, and I fervently echo the hope expressed by Your Excellency in your opening speech this session that the amount subscribed will reach as large a figure as possible so that it may prove an offering to His Majesty's Government worthy of India and of her people and Princes.

Paper Currency and Gold Standard Reserves.

“95. The following statement gives the active note circulation, *i.e.*, excluding notes held in reserve treasuries, and headquarter offices of the Presidency Banks, on the 1st February in each of the last 5 years :—

1913	. . . . .	51.29 crores.
1914	. . . . .	51.91 „
1915	. . . . .	45.09 „
1916	. . . . .	54.11 „
1917	. . . . .	67.90 „

Last year I pointed to the fact that the figure for 1916 was a record in the statistics of our active circulation, but this record has now been far passed. I have already—in dealing with exchange difficulties—alluded to the significance of this expansion and its connection with the measures we had taken in the direction of making our notes more popular and more easily cashable. I summarised these measures in my speech last year, but the operation of one of them has unfortunately had to be temporarily suspended: I refer to the decision not to re-issue any notes once presented at a currency office. We have most reluctantly had to discontinue this reform by reason of the fact that, owing to the scarcity of paper at home, the Bank of England, which supplies us with our notes, would have found it very inconvenient to send us the additional stocks which it involves. We intend, however, to resume our policy in this respect as soon as circumstances permit.

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

“96. 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.	Cash placed by the Secretary of State for India in Council at short notice.	Gold held in India.	Temporary loan to treasury balances.	Invested in London.	TOTAL.
1st April 1916 . . .	1	5,792	239	4,000	16,219*	26,251
31st January 1917 . . .		6,003	163	3,500	20,104†	29,770
As estimated on 31st March 1917.	100	6,000		...	24,748†	30,848

* This represents the value of the securities as on the 31st March 1916.

† This represents the value as on the 30th September 1916 (the date of the last valuation) of the securities then held and the cost price of securities purchased since that date.

“The increase in the total holding is mainly due to the large amount of fresh coinage we have had to undertake. As I have already indicated, the column ‘Temporary loan to Treasury balances’ will now become blank, as we are able to pay off the whole of our borrowing from the Reserve and thus to increase the investments held against it.

“97. I have already dealt very fully with the exchange position, and will only add here that the average rate of exchange in the current year, calculated on the Secretary of State’s drawings, will amount to 16.150 pence per rupee against 16.087 pence in 1915-16.

Remarks on certain special heads.

“98. I now proceed to furnish some supplementary information in regard to certain special and important heads :—

A.—Military Services.

“99. 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.	
	£	£	£	£	£	£
1913-14 . . .	19,789,239	512,845	947,297	16,384	21,265,765	19,896,113
1914-15 . . .	20,336,559	463,370	998,071	13,603	21,809,603	20,434,916
1915-16 . . .	21,893,200	745,513	850,866	13,514	23,503,093	22,261,353
1916-17 (Budget) . . .	22,079,100	707,600	853,300	20,900	23,660,900	22,500,000
1916-17 (Revised) . . .	24,512,000	744,600	1,533,700	29,500	26,819,800	25,350,000
1917-18 (Budget) . . .	25,215,900	838,600	1,153,700	14,000	27,227,100	25,900,000

“100. It is now estimated that the net military expenditure in 1916-17 will amount to £25.4 million or £2.9 million more than the Budget provision. I have already referred (in paragraph 14) to some of the main causes of this excess of expenditure. A rise in the price of stores of all kinds has also operated to increase our contribution to the Imperial Government for the maintenance of the troops with the Indian Expeditionary Forces; and it has been found necessary to proceed to a considerable expansion of the mechanical transport companies and Royal Flying Corps in India; and to meet a rise of expenditure in the Military Works Services. Besides the improvement of frontier roads already referred to, it has been necessary

[*Sir William Meyer.*]

[1st MARCH, 1917.]

to provide accommodation for the Flying Corps and the Aircraft Park, and to supply electric lights and fans in certain barracks and hospitals in pursuance of the now accepted policy in this matter; also to incur additional outlay on the construction of Indian Troops' Lines.

"The receipts have exceeded anticipations by £304,000, chiefly by reason of larger recoveries from the Imperial Government for Dockyard services. Increased sales of dairy produce to the overseas forces, war hospitals in India, etc., have also contributed to the improvement.

"Very little progress has been made towards the completion of the three Royal Indian Marine vessels now under construction at Home, and we have made provision once again for this retarded work in the 1917-18 Budget.

"101. For the coming year the Budget has been fixed at £25·9 million net, or about £500,000 in excess of the abnormally high expenditure expected to be attained in the current year. I have already (paragraph 55) explained the necessity for this provision.

"102. The contributions by Indian Princes and others towards the cost of the war have risen from £900,000, the sum mentioned in paragraph 82 of my speech introducing the Financial Statement of last year, to nearly £1½ million. Further large sums have also been generously placed at the disposal of His Excellency the Commander-in-Chief to be utilised in obtaining horses, motor cars, motor ambulances, comforts for troops, etc., or in any manner he may think advisable in the interests of the Army.

"103. I take this opportunity to correct a statement which I have seen made that our medical expenditure has been less during the war than it was in the years preceding. This is a misapprehension. It is the case that the annual expenditure exhibited under Grant 8—Medical—has been less since the war began than it was in 1913-14; but that arises from the fact that in time of peace all such expenditure, except furlough charges at Home, is shown under Grant 8, whereas when troops take the field the extra outlay on the medical establishments accompanying them goes to the Special Service head under Grant 14. And under the normal cost arrangements sanctioned by the Houses of Parliament we pay just as much for medical establishments with the Expeditionary Forces as we should in time of peace. Adding, then, the amount so paid to the expenditure in India, the total amounts to £560,000 in 1914-15, £579,000 in 1915-16, and £593,000 estimated for 1916-17, whereas the net expenditure in 1913-14 was £480,000. As regards medical stores also our actual payments show an increase and not a decrease.

B.—Famine Relief.

"104. This time last year I said that distress then existed in the Bankura and Tippera districts of Bengal; in the Manbhum and Singhbhum districts of Bihar and Orissa; in Ajmer-Merwara and in the Karauli State in Rajputana; but that the Kolhan Government estate in Singhbhum was the only area in which scarcity had formally been declared. Subsequently famine was declared in Bankura and scarcity in Merwara. Kathiawar was also added to the scarcity tracts, but the only relief measure found necessary there was the grant of gratuitous relief to a few hundred persons. The numbers on relief works and gratuitous relief in the famine-stricken area of Bankura reached their maxima of 22,558 and 25,724 in June and May, respectively. The maximum numbers on the test works in all the other affected areas have been 31,546, and on gratuitous relief 15,038. With the fall of good monsoon rains, and the consequent improvement in the agricultural situation, the numbers of people needing relief decreased, and by the middle of November relief operations had been finally closed in all the affected areas. It is anticipated, however, that some relief measures will be required again next year in part of the Kolhan estate where, owing to deficient and badly distributed rainfall in 1916, the early rice crop was a comparative failure. Assistance in the shape of agricultural loans was granted where necessary in the affected tracts, as well as in Assam, the Frontier Province and Baluchistan. Special railway concessions were granted for the carriage of fodder in the Punjab, Rajputana, Ajmer-Merwara and Bombay, and for the carriage of cattle also in Ajmer-Merwara; but the good monsoon has restored the supply of fodder, and these concessions have since been withdrawn.

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

"105. The actual expenditure incurred on relief has therefore been on a very small scale, amounting to £77,000 only in the current year. There has in addition been an expenditure of £122,000 on account of concessions for the transport of fodder. The total expenditure charged to the head "33—Famine Relief" thus amounts to £199,000. For 1917-18 the expenditure at present anticipated on relief is £7,000 only, and including the cost of fodder concessions the total provision under the Famine Relief head stands at £29,000.

"106. In the current year we provided £433,000 out of the Famine Insurance Grant of £1 million for protective works, and the actual expenditure is expected to amount to £354,000. The Famine Relief outlay of £199,000 mentioned above is a first charge on the balance of the grant, and £147,000 is available for the reduction or avoidance of debt, of which £349,000 comes under the Imperial and £98,000 under the Provincial section.

"107. In the coming year we have set apart £420,000 for protective irrigation works, and expenditure on Famine Relief is expected, as I have already said, to amount to £29,000 only, so that a sum of £551,000 will be available for reduction or avoidance of debt. It will no longer, however, be necessary to divide this sum between Imperial and Provincial by reason of the new arrangements I shall now explain.

"108. I mentioned last year that, in pursuance of a promise given in response to a resolution moved in this Council by my friend the late Rai Sri Ram Bahadur, we were considering the desirability of improving the existing scheme for regulating the distribution of expenditure on famine relief between Imperial and Provincial resources. The scheme referred to is that outlined in paragraphs 48 to 57 of Sir Edward Baker's speech introducing the Financial Statement for 1907-08. Our examination of the question was primarily directed to the possibility of a rectification of certain minor inequalities as between different provinces. But we also desired to remedy a grave defect of the present system which makes the assistance to Provincial expenditure dependent upon the gradual building up of famine credits for each province, with the result that there is no adequate provision for the case of a province which, after the exhaustion of its credit by one famine, is very shortly afterwards attacked by another. On considering the difficulties attendant on the modifications of the existing scheme which first suggested themselves, we came, however, to the conclusion that it would be better to abandon the present system, with its complicated book adjustments, altogether and to treat head "33—Famine Relief" as an ordinary divided head, the Imperial share being taken in each province at three-quarters and the Provincial at one-quarter, a distribution which represents approximately the assistance which Imperial revenues actually give in the long run towards famine expenditure under existing arrangements.

"109. This proposal has met with general favour from Local Governments, and the Secretary of State has sanctioned its introduction with effect from 1st April next. The result is that we get rid of the complications and inequalities of the existing system, and that whenever famine expenditure is incurred one-quarter of it only will fall on the Local Government. Famine relief will, in this connection, include expenditure incurred during a period of observation and test when famine is not actually declared, and also, subject to certain safeguarding conditions, outlay under a special prophylactic system adopted in the Central Provinces by which an expansion of the ordinary civil works programme takes the place, so far as possible, of special famine relief works. The new system will, as I have said, be much more simple than the old, and is expected not to impose any greater eventual burden on the Local Governments. On the contrary it puts a province which may be afflicted by two famines within a relatively short period in a much better position than would be the case under the present system, while at the same time effectively maintaining the principle of Provincial responsibility for the economic administration of famine relief. There may, no doubt, be occasions, though I trust that with the growing prosperity of the country these will be rare, when a famine is so serious that a Local Government is unable to meet its full share of the expenditure required without undue depletion of its balances. In that case, as under the existing scheme, special arrangements will be made for the relief of Provincial finance when the Local Government's balance has been reduced below half the prescribed minimum.

"110. The result of this scheme is, of course, to sweep away the book famine credits which would otherwise on 1st April have been recorded against the various

[*Sir William Meyer.*]

[1st MARCH, 1917.]

Local Governments, and to make expenditure from the Famine Insurance grant in connection with the reduction or avoidance of debt once more a wholly Imperial charge.

C.—Expenditure from special grants for education, sanitation, etc.

" 111. I give below a table similar to that exhibited in paragraph 80 of my speech last year, showing the special grants made for these purposes from 1911-12 onwards and the extent to which they have been utilized.

[In thousands of pounds.]

—	Total grants given (1911-12 to 1917-18).		Total expenditure incurred (1911-12 to 1917-18).	Balance expected to be available on 1st April 1918.
	Recurring.	Non-recurring.	Non-recurring.*	
(1) Education	95½	3,269	2,33½	935
(2) Sanitation	245	1,755	1,218	537
(3) Medical relief, etc. . . . .	...	58	55	3
(4) Agriculture, etc. . . . .	...	177	171	6
(5) Grants for other special purposes . . . . .	...	1,562	1,47½	88
(6) Grants for general purposes (Discretionary grants) . . . . .	...	667	468	259
Total	1,199	7,458	5,660	1,828
<i>Add</i> —Savings on recurring grants during foregoing period (about)				761
Total amount expected to be available from special grants on the 1st April 1918				2,589

* 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.

"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.

"112. I showed, by figures cited in paragraph 30 of my speech already referred to, that the Government of India and the Local Governments, in carrying out the policy of retrenchment which the war has necessitated, had refrained from pressing with undue rigour on outlay under education, medical and sanitation. On the contrary, as indicated in paragraph 57 above, we have now, notwithstanding the drain on our resources conditioned by the war, made a fresh recurring grant for improving the training and pay of teachers.

D.—Financial position, and powers, of Local Governments.

"113. The financial history of the provinces must continue to be one of severe restriction of expenditure so long as the war lasts, and I have already indicated the main results in the Provincial section of the Revised Estimates and the coming Budget. As there explained [paragraph 54-(7)] our Budget figures include a special allotment to the provinces of £158,000, with reference to the allocation of the profit

[1st MARCH, 1917.]

[*Sir William Meyer.*]

under the wheat scheme. I have also, in section C preceding, made a reference to expenditure on education, sanitation and medical relief, while in section B I have explained the new arrangements to be adopted in respect of famine expenditure. I need only therefore refer the Council for further information to Statement D of the Financial Statement, which brings together the revenue and expenditure and balances of the various provinces with which we have regular financial settlements for the past, current and coming years.

"114. I mentioned in my last year's speech that we were progressing with the problem of defining and enlarging the financial powers of Local Governments and of authorities subordinate to them, and that we hoped to evolve a systematic and liberal scheme of delegation which would deal satisfactorily with many questions of decentralisation, as well as matters of audit control. The Secretary of State has now sanctioned our proposals and the main features of these are as follows.

"115. In the first place, the powers of the Local Governments have been extended in several matters affecting expenditure which is either entirely Provincial or divided according to the terms of the provincial settlements between Imperial and Provincial, and speaking generally Provincial Governments will hereafter in respect of such outlay exercise exactly the same powers as the Government of India themselves.

"In the case of expenditure which is wholly Imperial, but is incurred by Local Governments as agents of the Government of India, the Local Governments' powers must obviously be restricted, but they have now been given larger discretionary powers than they previously possessed.

"116. Another matter of much practical importance in regard to decentralization is the position of heads of departments and other responsible officials in the matter of expenditure. Hitherto these officers have possessed certain limited powers which for some time past we should have been glad to have been able to expand. It was decided however by Lord Morley some years ago that for the time being no such expansion could be allowed without the consent of the Secretary of State in each individual case. It was recognized that this arrangement could only continue until fully considered arrangements for delegation had been worked out, and this has now been done. Having regard to the very different status and functions of the various officers concerned, it was impossible to treat them all on a like basis, and the solution which has been arrived at is what may be termed a discretionary one: that is the Secretary of State has now approved a set of fundamental rules which define not the actual powers to be exercised by each head of a department or analogous official, but the maximum extent to which powers may be delegated by a Local Government without reference to the Secretary of State or to the Government of India. It is not, of course, intended that Local Governments should extend powers to their heads of departments by one comprehensive or general sanction. In each case the circumstances of the department will have to be considered and power conferred only when some real administrative convenience is obtained thereby. But for the future the decision to delegate or not will rest mainly with the authority best acquainted with the facts, namely the Local Government. The Government of India will exercise like powers of delegation in respect of officers directly under them. The success of the system must obviously be largely dependent on the comprehensiveness of the fundamental rules which regulate its scope; and it is from this standpoint that I regard the new arrangements as an important and promising departure.

"117. The powers of which I have been speaking are those which are exercised in the creation of new appointments, grants to local bodies and the like. But some measure of decentralization is equally desirable where special sanction is required to the relaxation of rules in our financial codes, and a number of amendments have recently been made there with that object. Into the details I need not enter, but I may mention very briefly the principle that has been adopted, adding, however, that here again the significant point is in the generality of the method of treatment adopted. The Secretary of State will reserve to himself the right to decide what particular powers or general classes of powers should be held to be a suitable subject-matter of delegation. The Government of India will decide on a reference from the Local Government, but without referring themselves to the Secretary of State, whether a

[*Sir William Meyer.*]

[1st MARCH, 1917.]

particular officer may be regarded as a head of a department for the general purposes of the delegation scheme. It will then rest with the Local Government to delegate, or to refuse to delegate, all or any of the approved powers to any given authority who has been admitted to this status

"118. While the facts I have here set forth will perhaps appear unattractive to the general public, I can assure the Council that the net result will be a very considerable increase in the discretionary powers of Local Governments and their principal officers, and the avoidance of much correspondence which would otherwise have taken place on relatively petty matters.

E.—Railways (Capital outlay).

"119. 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 :—

—	1913-14.	1914-15.	1915-16.	1916-17 (Revised).	1917-18 (Budget).
	£	£	£	£	£
Open lines including rolling stock	10,303,100	10,534,300	3,864,200	708,200	3,505,700
Lines under construction—					
(a) started in previous years	1,871,500	898,800	627,100	279,700	94,300
(b) started in current year	181,700	...	...	530,000	...
Total	12,806,300	11,433,100	4,491,300	1,517,900	3,600,000

"When presenting the Financial Statement for 1916-17, I stated that our financial position permitted of our providing only a £3 million capital programme for Railway expenditure during 1916-17, and I have already explained why we have been unable to work even up to this figure. For the next year we are again obliged to curtail our expenditure within very narrow limits though it is possible to provide for a slightly more liberal programme than in 1916-17.

"120. We have been obliged to exclude any provision for new lines with the single exception of the Nushki Extension which, as I have already mentioned, was required for military purposes. Apart from this special project, for which £73,300 has been provided, the amount allotted for construction is confined to the small sum of £21,000 which is to be utilised on certain lines in progress, *viz.*, Parvatipur-Singapur, Itarsi-Nagpur and the Overhead connection on the Great Indian Peninsula line at Bombay. Work on these lines has been practically closed down, and the small provision made is to meet necessities which cannot be postponed without loss or damage to existing structures.

"121. On ordinary capital works and equipment incidental to the upkeep of existing open lines, we propose to spend £3,505,700. Apart from considerations of economy, our programme in this respect has had to be seriously curtailed in consequence of the extreme difficulty of obtaining material from England, and the expenditure in the coming year will be devoted to works which entail the minimum importation of materials from Europe. It is however hoped that it will be possible to arrange for the replacement from England of some of the rolling stock which has been actually surrendered by railways for military purposes, where such replacement is shown to be urgently necessary.

[1st MARCH, 1917.]

[Sir William Meyer.]

"122. The construction of railways by branch line companies has also received a temporary check, owing to difficulties in respect of raising capital in the open market and obtaining permanent-way material and rolling stock. Activity in this direction has thus been restricted in the current year to the raising of capital for four new projects aggregating a total of 81 miles. Of these, the Trichinopoly-Pudukkottai Railway (32 miles) in Madras is a Native State line for which funds will be provided by the Pudukkottai Durbar; the Raipura-Panposh Railway (16 miles) in Bihar and Orissa is to serve a lime-stone quarry and the funds for its construction will be privately obtained; the Arakan Light Railway (18½ miles) in Burma is necessary to prevent expenditure already incurred from becoming unremunerative; and the conversion of the Teesta-Kurigram Railway (14½ miles) in Bengal is designed to set free material required for the Khulna-Bagirhat Railway, the construction of which had previously been sanctioned. The only other issues of capital during the year were for the completion of lines already in progress.

"The raising of capital for 188 miles of railway previously sanctioned for construction by branch line companies and district boards has also been deferred owing to the war.

"In order, however, that there may be no delay in resuming construction when conditions are again normal promoters are allowed to discuss in advance the terms for the flotation of branch line companies after the close of the war. Concessions have thus already been granted for two lines—the Shahdara-Narowal Extension (48 miles) in the Punjab and the Kurigram-Chilmari Extension (21 miles) in Bengal; and negotiations with several other branch line companies and district boards are at an advanced stage.

"123. The following figures show the capital outlay on all State lines up to the end of each year from 1913-14, and the net return obtained after deducting working expenses and interest charges:—

[In thousands of pounds.]

	1913-14.	1914-15.	1915-16.	1916-17, Revised.	1917-18, Budget.
Capital at charge at end of each year .	351,302	361,560	364,858	365,116	367,393
Net working profit from railways excluding interest charges.	17,616	15,614	17,797	20,769	20,102
Percentage of net working profit to capital outlay.	5.01	4.32	4.88	5.69	5.47
Net working profit from railways after meeting interest charges.	4,790	2,158	4,075	6,796	6,106
Percentage to capital outlay of net profits after meeting interest charges.	1.36	.60	1.12	1.86	1.66

"124. The return on Railway capital (excluding interest charges) was estimated in the current year's budget at 4.49 per cent. We now estimate it at 5.69 per cent. in consequence of the large increase in net railway earnings which I have already dealt with in my review of the Revenue estimates. For next year we put it at 5.47 per cent. consequent on the smaller estimate of net earnings provided for in the Budget.

"The charges for interest in the current and ensuing years work out to 3.83 and 3.81 per cent. respectively on the capital outlay, so that the final net profit on railways in each of these years is 1.86 and 1.66 per cent. respectively. These interest charges include certain annuity and sinking fund payments which really go to the discharge of debt.

F.—Irrigation (Capital outlay).

“125. 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.	1915-1	1914-15.	1915-16.	1916-17 (Revised).	1917-18 (Budget).
1	2	3	4	5	6
	£	£	£	£	£
<i>Productive Works.</i>					
Capital outlay to end of each year	34,645	35,777	36,603	37,276	37,880
Total receipts, including land revenue due to irrigation	4,338	4,325	4,394	4,562	4,716
Total expenses, including interest on debt	2,306	2,452	2,549	2,568	2,613
Net profit	2,032	1,873	1,845	1,994	2,103
Percentage of net profit to capital outlay	5.87	5.24	5.04	5.35	5.55
<i>Protective Works.</i>					
Capital outlay to end of each year	4,796	5,345	5,853	6,215	6,615
Total receipts, including land revenue due to irrigation	112	101	118	106	109
Total expenses including interest on debt.	213	247	277	291	305
Net loss	101	146	159	185	196
Percentage of net loss to capital outlay	2.10	2.73	2.72	2.98	2.96
<i>Minor Works and Navigation.</i>					
Direct receipts	263	254	267	283	283
Expenditure	914	986	869	781	827
Net loss	651	732	602	498	544

“126. 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 1915-16 amounted to 63,583 miles, and it is expected that this figure will be increased by over a thousand miles during the current financial year. These channels command an area of over 50½ million acres of culturable lands, of which approximately half was irrigated during the year ending 31st March 1916, and it is estimated that at least an equal area will be irrigated this year.

“127. In addition to the works in operation, there are 42 major projects, 20 being productive and 22 protective, which are either under construction, awaiting sanction or being examined by the professional advisers of Government. They are estimated to extend the benefits of irrigation to an area of over 9½ million acres out of a culturable commanded area of 22½ million acres, at a cost of £35 million.

“128. No new works of any magnitude were sanctioned during the year. The project for the utilization of a part of the water-supply of the Sarda river for improving the irrigation on the Rohilkhand canals in the United Provinces was submitted

[1ST MARCH, 1917.]

[*Sir William Meyer.*]

to the Secretary of State for sanction. He has, however, decided to defer sanctioning it until a definite decision has been arrived at regarding the utilisation of the balance of the available river supply.

"129. On the 30th March 1916, the Government of India ratified the award in the Cauvery arbitration case. This enables the Mysore Durbar to construct a large reservoir on the Cauvery at Kannambadi, and will affect the scope of the Metur Reservoir projected by the Madras Government. An amended estimate providing for the necessary alterations has been prepared and is now under the consideration of the Government of India.

"130. In the Punjab a scheme known as the Haveli project has been drawn up, and provides for canals taking off the Chenab river immediately below its confluence with the Jhelum, designed partly for the irrigation of the tracts lying contiguous to the river on both its banks and partly for improving the supply to the Sidhnaï and the Chenab Inundation canals in the Multan district. This scheme, and that known as the Sutlej Valley project, are being further considered with a view to determining their combined effect on the existing inundation canals lower down the rivers. Projects are also under examination for a canal taking off the river Indus near Kalabagh for the irrigation of the desert tract in the Sind Sagar Doab known as the Thal, and for a large storage reservoir on the Sutlej to improve the cold weather supply of that river.

"131. The Kistna reservoir and the Sukkur barrage projects in Madras and Sind respectively are still under investigation. An important scheme for embanking the left bank of the Irrawaddy river in Burma, which is estimated to reclaim about 500,000 acres of land to rice cultivation, is also under consideration.

"132. In Bombay, progress on the Nira Right Bank canal and the Pravara irrigation system has been hampered by labour and freight difficulties.

"In the United Provinces, work on the construction of permanent head-works of the Ganges canal at Hardwar is approaching completion.

"The Twante canal in Burma was opened for traffic at the end of January 1917. The completion of this work was somewhat delayed on account of the transfer to Mesopotamia of one of the dredgers employed on it.

"The Weinganga canal in the Central Provinces was opened for irrigation during the year, but the supply was interrupted by a serious breach in the main dam, repairs to which will somewhat delay the development of irrigation.

G.—Delhi Expenditure (Capital Outlay).

"133. The expenditure for the current year under head 51 is expected to amount to Rs. 40 lakhs, or Rs. 10 lakhs less than in 1915-16. This reduction has been attained by a smaller work programme and by a considerable reduction in the engineering staff.

"The aim during the present year has been to leave untouched the larger schemes of sanitation, water works, drainage and irrigation, which require the use of imported materials, but to continue such work on the central buildings and other features of the New City as can be carried on without the use of materials which have become difficult or expensive to procure owing to the war, and to maintain the output of brick fields and quarries and the preparation of sites and roads. A moderate rate of progress has been maintained in the case of Government House, the Viceroy's Court, the Secretariats and the great *Place*. Progress has been made with the task of levelling sites and opening up roads. A considerable addition of manufactured brick and dressed stone has been made to the stock of material. There has also been progress in the work of moving and collecting material at the various sites where it will be required eventually. Trees have been planted on a number of the avenues and roads.

"It is expected that Rs. 40 lakhs will again be needed to carry on the work on similar lines in the year 1917-18.

[*Sir William Meyer; His Excellency the President.*] [1ST MARCH, 1917.]

Conclusion.

"134. Now, my Lord, I need not detain the Council longer. This year's Budget is once more marked by a large imposition of fresh taxation, but this is required not for our own local purposes, but in the interests of the Empire. We are now supplementing the assistance India has already given in the colossal war which her Sovereign has had to undertake in defence of civilisation and national liberties by a further pecuniary offering which will mark the vital interest which she has in this great struggle.

"In your opening speech this session Your Excellency has indicated that such a policy is in full accord with the Resolution passed in this Council on the 8th September 1914, supplemented by that of the 24th February 1915, to which I have referred in the body of my speech. I have already explained why we could not previously comply with those Resolutions to the full extent we should have wished. The time has now come at which we can rise to the heights to which they pointed, and I trust that the measures we propose at this time of war stress and need will receive full acquiescence in this Council and in the country.

"135. In conclusion I desire once again to express my heartfelt acknowledgments to the officers of the Finance Department for the way in which they have dealt, in their various spheres, with the very difficult conditions through which we have passed during the current year and which are likely to continue throughout the year to come. I can only repeat what I said in previous years that I am most deeply indebted to their loyal and efficient aid."

HIS EXCELLENCY THE VICEROY'S SPEECH.

His Excellency the President :—"Hon'ble Members are aware that, under the Rules of Business, there is no discussion on the Financial Statement to-day. That discussion will take place on March, the 7th.

"With regard to the items of business on the List of Business which Hon'ble Members have in their hands, may I suggest the following procedure. With regard to the first Bill that the Hon'ble Sir William Meyer will bring forward, Hon'ble Members will notice that there is no Committee stage on that Bill. I would, therefore, suggest to Hon'ble Members that they allow the Hon'ble Member to introduce the Bill this morning, and that the discussion should take place on March, the 7th. With regard to the second and third Bills, there is a Committee stage, but I think it will be for the convenience of all Members if the discussion on those two Bills takes place not now but this afternoon. Therefore, I would suggest to Hon'ble Members, as regards the first Bill, that Sir William Meyer move for leave to introduce it and that you discuss it on March, the 7th. As regards the second and third Bills, Sir William Meyer will introduce them and he will move this afternoon that they be referred to a Select Committee, and then Hon'ble Members will have an opportunity of discussing those Bills."

THE INDIAN TARIFF (AMENDMENT) BILL.

The Hon'ble Sir William Meyer :—"My Lord, I beg to move for leave to introduce a Bill further to amend the Indian Tariff Act, 1894."

The motion was put and agreed to.

The Hon'ble Sir William Meyer :—"My Lord, I beg to introduce the Bill. It is one to amend the Indian Tariff Act with reference to the announcements made just now in my speech introducing the Financial Statement, that is, it authorises the raising of the duty on imported cotton goods from 3½ to 7½ per cent, and it doubles the export duty on jute. In applying the new jute duty we shall, as stated in my speech on the Financial Statement, exempt existing forward contracts (in so far as these do not contain a cautionary provision providing for future increase of duty) as well as all jute exported in pursuance of War Office contracts; but this will be done, as formerly, by executive orders. As I explained in my speech, it is necessary to impose these enhanced duties, with effect from the present date.

[1st MARCH, 1917.] [Sir William Meyer; His Excellency the President.]

"We have taken advantage of this opportunity to make a small further amendment in respect of the duty on imported silver manufactures. Last year, in order to remove the then anomalous position in which the Indian silversmiths and manufacturers of silver thread were placed through having to pay the special rate for silver on the raw material used by them, while the imported manufactured article only paid duty at the general rate, we raised the duty on imported silver manufactures to 15 per cent *ad valorem* which was roughly equivalent to the duty of 4 annas an ounce imposed on imported silver in 1910. But we provided that where an importer could satisfy the customs authorities as to the actual silver contents of the articles he was importing, he should be entitled to pay duty at the special rate applicable thereto only on such silver content, the residual value of the import being taxed at our general tariff rate of $7\frac{1}{2}$ per cent. This proviso has caused a certain amount of administrative difficulty, and it has been found that an all-round rate of 10 per cent. *ad valorem* would practically equalise the position of the importer and the Indian manufacturer of silver articles. We accordingly propose to make this the rate of duty applicable to silver manufactures, and to abolish the present proviso under Item No. 50, Part II, Schedule II of the Tariff Act.

"The Bill is consequently of a simple character, involving no new additions to the field of taxation, but merely alterations in rates of taxation already imposed. I do not think it necessary, therefore, to refer it to a Select Committee, but I ask permission to have it published, with the Statement of Objects and Reasons, in the Gazette of India, and I propose, with Your Excellency's permission, to get it passed into law on the 7th instant. I beg to 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.

THE INDIAN INCOME-TAX (AMENDMENT) BILL.

The Hon'ble Sir William Meyer:—"My Lord, I move for leave to introduce a Bill further to amend the Indian Income-tax Act, 1886. Perhaps it would be convenient if I just explained the purport of the Bill, as it will save our time afterwards; but I am in Your Lordship's hands as to that."

His Excellency the President:—"Do you not think it would be more convenient if you explained the reasons for the Bill this afternoon, when the discussion would follow immediately afterwards?"

The Hon'ble Sir William Meyer:—"Certainly, My Lord. I expressly wished to leave the point to your Excellency. I therefore simply move for leave to introduce a Bill further to amend the Indian Income-tax Act, 1886."

The motion was put and agreed to.

His Excellency the President:—"The Hon'ble Sir William Meyer will move for reference to Select Committee this afternoon."

The Hon'ble Sir William Meyer:—"All that remains for me just at present is to move for leave to introduce a Bill to impose a tax on income, in addition to that imposed by the Indian Income-tax Act, 1886, or, to put it in plainer words, the Super-tax referred to in my speech introducing the Financial Statement."

The motion was put and agreed to.

The Council then adjourned till 3 P.M.

[*Sir William Meyer ; The Vice-President.*] [1st MARCH, 1917.]

After Lunch the Hon'ble the Vice-President took the Chair.

3 P.M.

The Hon'ble Sir William Meyer:—"Sir, I beg to introduce the Bill further to amend the Indian Income-Tax Act, 1886, As I explained in introducing the Financial Statement the object of the Bill I have obtained leave to introduce is to enable assessing officers to require any person who is *prima facie* liable to income-tax to declare his income from all sources under penalty for failure to do so, or for making a false declaration. Under the Act, as it stands at present, Income-tax Collectors have only powers in certain circumstances to invite assessees to make a return of their incomes, and as the invitation is not backed by any penalty in case it is not complied with, it will be readily understood that it is often ineffectual. The inadequacy of these powers for ascertaining the incomes of persons who are being assessed to the tax has indeed long been recognised as a flaw in the existing Act: it has helped dishonest tax-payers to evade contributing their proper quota to the public revenues. The question of improving our machinery for assessment in this respect was already marked down for consideration when any general amendment of the Income-tax Act should be undertaken. But the introduction of a graduated scale of taxation last year, and still more the imposition of the super-tax now proposed, have rendered it urgently necessary to take up this reform at once, without waiting for that general amendment of the existing Act which, as I have already informed the Council, I have in mind. In particular, it is essential for super-tax purposes to obtain accurate returns of the incomes of probable assessees, and assessing officers will be at a loss to decide what persons are *prima facie* liable to assessment to the super-tax, unless they are able to use as a guide returns of income submitted by such persons for income-tax purposes.

"The method by which the Bill gives effect to this proposal is simple. We are repealing that part of the present Act which empowers assessing officers simply to invite a declaration of income from probable assessees, and are enabling them by a new clause to call upon any person who, in their opinion, has an income of over Rs. 1,000 per annum to furnish a return of his income in a prescribed form. This method involves the minimum interference with the present procedure for administering the Act. All that the Bill does is to authorise a Collector to demand a return of income from any person, should he think it desirable to do so; he is not bound to ask for a return in every case, and it will remain open to Local Governments to issue general executive instructions to their assessing officers as to the manner in which they are to exercise the discretion now to be given to them.

"Failure to furnish a return which has been demanded is dealt with by the Bill in the same way as other defaults under the existing Act. That is to say, it may be punished on conviction before a Magistrate by a fine which may amount to Rs. 10 for each day during which the default continues. The Bill also provides that, unless an assessee has duly complied with any demand made on him to submit a return of income, he shall not be permitted to petition against his assessment. It will, I think, be generally recognised that it would be unreasonable to create a statutory right of objection to his assessment by a person who is still defying a statutory order to declare his income.

"Incidentally Collectors are empowered by the Bill to decide for themselves whether any person should be included in the general list of assessees which is published under section 16 of the Act, or should be served with a separate notice under section 17: hitherto they could do this only when duly authorised by the Local Government. This alteration is a natural corollary of the powers given to Collectors by the Bill to determine from what persons they should call for a return.

"I now beg to move that you will suspend the Rules of Business to permit of the Bill being referred to Select Committee."

The Hon'ble the Vice-President:—"I suspend the Rules of Business."

[1st MARCH 1917.] [Sir William Meyer; Rao Bahadur B. N. Sarma; Khan Bahadur Mian Muhammad Shafi; The Vice-President.]

The Hon'ble Sir William Meyer:—"I move, Sir, that this Bill be referred to a Select Committee consisting of yourself (the Hon'ble Mr. G. R. Lowndes), the Hon'ble Pandit Madan Mohan Malaviya, the Hon'ble Sir Fazulbhoj Ourrimbhoj, the Hon'ble Rai Sitanath Ray Bahadur, the Hon'ble Mr. J. B. Brunyate, the Hon'ble Mr. J. S. Wardlaw Milne, the Hon'ble Lieutenant-Colonel S. L. Aplin, the Hon'ble Mr. E. H. Bray, the Hon'ble Mr. Walsh, the Hon'ble Mr. L. Davidson and myself."

The Hon'ble Rao Bahadur B. N. Sarma:—"Sir, I feel that it is my bounden duty to bring to the notice of the Council my views with regard to the taxation proposals I am not discussing the Budget proposals involved in this legislation. But before I proceed, Sir, I have a difficulty which I shall presently place before the Council as to whether it is competent to the Government of India to undertake this legislation without an amendment of the Government of India Act of 1915....."

3-8 P.M.

The Hon'ble Khan Bahadur Mian Muhammad Shafi:—"Sir, I rise to a point of order. The question raised by my Hon'ble Colleague, so far as it has any bearing at all on the Bill which is now before Council, it seems to me, does not arise. The Bill which has just been introduced by the Hon'ble Sir William Meyer is a Bill which merely seeks to introduce certain modifications in reference to the issue of notice to certain persons who are to make certain returns in connection with income-tax assessment and for this purpose alone. It is not the Bill in which any super-tax is levied or any tax contemplated this year is levied at all."

The Hon'ble the Vice-President:—"The Hon'ble Member is not entitled to make a speech on a point of order. I quite understand the point which he wishes to raise. But the Hon'ble Mr. Sarma is only arguing that this Bill is *ultra vires* the Government of India. I propose to hear him on this subject, and he will no doubt confine himself to the point whether this Bill is *ultra vires*."

The Hon'ble Rao Bahadur B. N. Barma:—"Section 20 of the Government of India Act, 1915, states:—

'(1) The revenues of India shall be received for and in the name of His Majesty, and shall, subject to the provisions of this Act, be applied for the purposes of the Government of India alone.

(2) There shall be charged on the revenues of India alone—

- (a) all the debts of the East India Company; and
- (b) all sums of money, costs, charges and expenses which, if the Government of India Act, 1858, had not been passed, would have been payable by the East India Company out of the revenues of India in respect of any treaties, covenants, contracts, grants or liabilities existing at the commencement of that Act; and
- (c) all expenses, debts and liabilities lawfully contracted and incurred on account of the Government of India; and
- (d) all payments under this Act.'

And then, with reference to this section 20, we have to read section 22 also, which runs as follows:—

'Except for preventing or repelling actual invasion of His Majesty's Indian possessions, or under other sudden and urgent necessity, the revenues of India shall not, without the consent of both Houses of Parliament, be applicable to defraying the expenses of any military operations carried on beyond the external frontiers of those possessions by His Majesty's forces charged upon those revenues.'

I take it, Sir, that this is a safeguard provided by the legislature against either the Government of India or His Majesty's Government raising any revenues except for the purpose of....."

[The Vice-President; Rao Bahadur B. N. Sarma; [1st MARCH, 1917.]
Sir William Meyer.]

The Hon'ble the Vice-President :—"I must point out to the Hon'ble Member that the Bill before the Council is merely a Bill to amend the Income-Tax Act, to enable a return to be required from persons subject to that Act. The Bill has nothing whatever to do with the application of revenues of the Government of India."

The Hon'ble Rao Bahadur B. N. Sarma :—"If the object with which the money is raised cannot be considered in connection with the question as to whether the money can be legally raised, then, Sir, I am certainly out of court. But if the object for which the money is to be raised can be, then this measure is *ultra vires*, or outside the legal ability of the Government of India to legislate. If you, Sir, think that the object being one it is not competent to the Government of India to raise, cannot be raised I have nothing more to say on that question."

The Hon'ble the Vice-President :—"I must certainly hold that the application of the money to be raised is not material to the Bill before the Council. We have had an Income-tax Act from 1886; and the only question at present is, whether we should add certain sections to it making it compulsory on all persons subject to the Act to make a return."

The Hon'ble Rao Bahadur B. N. Sarma :—"Then, Sir, the question is as to whether there is any need for this Act at the present juncture. If the object of the Act be, Sir, simply to provide facilities for revenue officers to obtain more accurate returns in respect of incomes on which assessment is to be levied, there is nothing to be said. But if the principle underlying this—and I take it that that was the object with which this Bill is introduced at the present time—be to enable the Government to raise more revenue for one purpose or another, then, I think, Sir, there is no need shown for larger revenue, and on that account I shall have to oppose it. If that is not the object, then I have nothing more to say."

The Hon'ble Sir William Meyer :—"I have already explained, Sir, and I think it has been understood by all the Members of this Council, except the Hon'ble Member from Madras who has just spoken, that this Bill is a Bill to improve our machinery. Incidentally, as I have said, such improved procedure is necessary for super-tax purposes, but as far as this Bill alone is concerned, it merely improves the machinery of the Income-tax Act. The Hon'ble Member is apparently stricken by the fear that we shall thereby get more revenue. As I explained in my speech just now, we may hope to get some more revenue through this Bill, because the provisions of the existing Act often enable dishonest tax-payers to evade payment of their proper quota, but that is the only way in which the Bill will increase our receipts. It thus appears to be a matter of great regret to the Hon'ble Member that dishonest tax-payers should be made to pay their proper quota. I am glad to think that no other Member shares in this sympathy. I repeat, Sir, that this Bill is simply a question of improved machinery."

The Hon'ble Rao Bahadur B. N. Sarma :—"Sir, as a matter of explanation, may I say that I never stated that I sympathised with such people. On the other hand, I rose to speak because I thought that the object was a different one."

The motion was put and agreed to.

THE SUPER-TAX BILL.

The Hon'ble Sir William Meyer :—"Sir, I beg to introduce a Bill to impose a tax on income in addition to that imposed by the Indian Income-tax Act, 1886, which, I have already been given leave to introduce. The purpose of this Bill is to impose a tax on income, in addition to that

[1st MARCH, 1917.]

[*Sir William Meyer.*]

imposed by the Indian Income-tax Act, 1886, that is to say, what we may conveniently describe as a 'super-tax.' In my speech this morning introducing the Financial Statement I have already explained why this additional taxation is necessary, and why we propose to raise it by means of a graduated super-tax on incomes in excess of Rs. 50,000. As I then said, the tax now proposed will only be assessable on incomes in excess of Rs. 50,000, and will then be levied at the following rates :—

- For every rupee of the first Rs. 50,000 of the excess, *i.e.*, 1 anna per rupee.
between Rs. 50,000 and 1 lakh.
- For every rupee of the next Rs. 50,000 of the excess, *i.e.*, 1½ annas per rupee.
between Rs. 1 and 1½ lakhs.
- For every rupee of the next Rs. 50,000 of the excess, *i.e.*, 2 " "
between Rs. 1½ and 2 lakhs.
- For every rupee of the next Rs. 50,000 of the excess, *i.e.*, 2½ " "
between Rs. 2 and 2½ lakhs.
- For every rupee of the remainder of the excess, *i.e.*, on 3 " "
everything over Rs. 2½ lakhs.

" I need only make some further remarks as to the manner in which the Bill provides for the actual assessment of the tax.

" In the first place, we propose to take as the general basis for the tax the total income received by or accruing to an individual tax-payer in a single year. In calculating that income, he will have to take into account, besides any salary he may have earned or the profits of his business, his receipts from dividends on interest on securities, and the super-tax will therefore not be deducted at the source from such dividends or interest. This will avoid inconveniencing the large number of shareholders in companies, or holders of Government paper, whose incomes are not sufficient to render them liable to super-tax, and who would, if deductions at the source were resorted to, be put to the trouble of applying for refunds. But if we confined ourselves to taxing the incomes received by individuals considerable portions of the profits obtained by companies would automatically escape from our net. I refer to such portions of the profits as are placed to a reserve or otherwise withheld from distribution to the shareholders. These sums should obviously be liable to the taxation now proposed as they are to ordinary income-tax. The Bill therefore provided for the assessment to super-tax of so much of the income of any company as has not been paid or declared for payment by way of dividends to shareholders. The word 'income' is used advisedly in this connection so as to make it perfectly clear that any sums received by a company by way of interest on investments are not exempt from the tax. Similar provisions in the Bill provide for the levy of the super-tax on any portion of the income of firms, or Hindu undivided families, which is not paid out to a member of the firm or family.

" We are allowing assessee, in computing their total income, to omit from their receipts any profits from agriculture or income from property solely employed for religious and charitable uses, and also such portion not exceeding one-sixth of their total income as they may have utilised in the period on which the assessment is based for life assurance payments, or for the purchase of deferred annuities for the benefit of themselves and their families. Interest on stock notes which was declared free of all taxation when the notes were issued can also be deducted from total income. In these respects the exemptions from income-tax allowed by the Income-tax Act have been followed.

" We have adopted as the period on the income of which the assessment to super-tax will be based the provisions in the Indian Income-tax Act relating to assessments under Part IV of the second Schedule. If the assessee has made up his accounts within the year prior to that for which the assessment is made his income for the year ending on the day on which his accounts were made up will form the basis of the assessment: otherwise the assessee's income in the previous financial year ending on the 31st March will be taken. This period will apply to income of all descriptions whether from salaries, dividends, interest on securities or business profits,

[*Sir William Meyer; The Vice-President; Rao Bahadur B. N. Sarma; Mr. Bhupendra Nath Basu.*] [1ST MARCH, 1917.]

“ Clause 5 of the Bill gives Collectors powers to call for returns of income from any person who in their opinion is liable to pay super-tax, and also provides for assessments being made in cases of refusal to furnish the return. The remaining clauses of the Bill call for little comment. Their general effect is to apply to the assessment and collection of the super-tax the procedure already in force for assessing and collecting income-tax, and I need only remark that we have thought it unnecessary to permit composition for super-tax over a period of years and that for the convenience of assesses, we are taking a rule-making power which will enable us to permit payment of the super-tax to be made in suitable instalments.

“ I now move, Sir, that the Rules of Business be suspended to admit of the Bill being referred to a Select Committee.”

The Hon'ble the Vice-President :—“ I suspend the Rules of Business.”

The Hon'ble Sir William Meyer :—“ Sir, I beg to move that the Bill be referred to a Select Committee consisting of yourself (the Hon'ble Mr. G. R. Lowndes), the Hon'ble Pandit Madan Mohan Malaviya, the Hon'ble Sir Fazulbhoj Currimbhoj, the Hon'ble Rai Sitanath Ray Bahadur, the Hon'ble Mr. J. B. Brunyate, the Hon'ble Mr. J. S. Wardlaw Milne, the Hon'ble Lieutenant-Colonel S. L. Aplin, the Hon'ble Mr. E. H. Bray, the Hon'ble Mr. E. H. C. Walsh, the Hon'ble Mr. L. Davidson and myself.”

The Hon'ble Rao Bahadur B. N. Sarma :—“ I must apologize to the Council for speaking on a former occasion in respect of this point of order by a mistake which I fell into that the provisions of the two Bills were covered by one and the same Bill. I am not going to argue the point as to whether the revenue that is being raised is rightly leviable under the circumstances and in view of the conditions of India at the present time; what I submit is that inasmuch as the revenue is not to be utilized for the purposes of the Government of India, as there is no deficit, and apart from the purpose for which this money is said to be raised, section 20 is a bar in the way of Government.”

The Hon'ble the Vice-President :—“ The Hon'ble Member is out of order. The question before the Council is purely whether certain taxation is to be imposed. The Council is not concerned with what will become of the revenues after they are raised. There is no reason to suppose that Government will devote them to any unlawful purpose. On the motion to refer the Bill to a Select Committee, it is not open to the Hon'ble Member to discuss the point raised.”

The Hon'ble Rao Bahadur B. N. Sarma :—“ Sir, I bow to your ruling, and will state the point when the Financial Statement is discussed on the 7th. I may state at present that absolutely no necessity has been made out for imposing fresh taxation in the manner proposed at present, and I am, therefore, opposed to the Bill.”

The Hon'ble Mr. Bhupendra Nath Basu :—“ In connection with this Bill, I understand there is considerable difficulty in the administration of the Act in regard to the levying of income-tax in respect of Government securities. I know personally that the rule works very harshly, and many persons, poor people, have to spend much more than the benefits they receive. As the Bill is to be considered in its important aspects, would it not be possible to include consideration of the question in the Act in regard to the procedure for revenue. If a person has got a promissory note for Rs. 500, he is charged with an amount which would be payable if his

[1st MARCH, 1917.] [Mr. Bhupendra Nath Basu; Mr. Brunyate; The Vice-President.]

income was Rs. 25,000, whereas it may only be Rs. 10. He has to go to the Collector and then to a legal practitioner, and then he gets his order for a year; so that the benefit he is likely to get is more than counter-balanced by the expenditure and trouble he is put to."

The Hon'ble Mr. Brunyate:—"We are now dealing with the Super-tax Bill and not with the Income-tax Bill."

The Hon'ble the Vice-President:—"Mr. Brunyate is quite correct. Much as we may sympathize with the difficulties mentioned, I am afraid they do not come under the Super-tax Bill. I think the Hon'ble Member will see that."

The Hon'ble Mr. Bhupendra Nath Basu:—"Yes, I see it."

The motion was put and agreed to.

The Council then adjourned to Wednesday, the 7th March, 1917.

A. P. MUDDIMAN,

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

DELHI :

The 8th March, 1917.

APPENDIX A.

[Referred to in answer to Question No. 3.]

(Statement made by the HON'BLE MR. SLOCOCK.)

The circumstances in which Government passed orders prohibiting the entry of Mrs. Besant into the Central Provinces and Berar are as follows :—

During the currency of the war, it has been more especially the Chief Commissioner's policy to discourage violent political agitation and inflammatory speeches in these provinces as being prejudicial to public safety at a time like the present. In carrying out this policy, the Chief Commissioner is pleased to acknowledge he has received the support of the leaders of public opinion on practically all occasions on which political matters have been discussed.

The projected visit of Mrs. Besant to Amraoti at the time the Provincial Conference was to take place, became known to the local authorities only a few days before the opening of the Conference. Mrs. Besant had, it was understood, been invited to attend the annual meeting of the Federation of Theosophical Lodges of the Central Provinces and Berar. At the same time, Government received authoritative information that Mrs. Besant had announced her intention of not confining herself, on her visit to Amraoti, to Theosophical subjects, but of dealing with political subjects as well. Government, in view of the policy declared above and having regard to the public utterances of Mrs. Besant, both on the platform and in the Press, was of opinion that her visit to these provinces should be prohibited.

As the action of Government has been the subject of criticism by the Provincial Conference as casting a slur on the Conference, and as it has also been attacked by Theosophical Lodges in some parts of India as involving an interference with religious liberty, Government takes this opportunity of giving the following further facts. Mrs. Besant had received invitations for several years past to attend the Annual Theosophical Federation meetings in these provinces, but had never found it possible to accept. On this occasion, the annual meeting was fixed for the Muharram holidays, and the same date was also fixed for the session of the Provincial Conference. When the projected visit of Mrs. Besant for the Theosophical Conference at a time which coincided with the Provincial Conference session, became known in Amraoti a few days before the date which had been fixed for the meetings, the information gave much dissatisfaction to an important section of those interested in the Provincial Conference, who considered that it would prejudice the success of the Conference, and proposals were actually put forward that Mrs. Besant should be asked to abandon her visit. The Reception Committee of the Provincial Conference conveyed an assurance to the Commissioner that Mrs. Besant would take no active part in the Conference. This assurance was fully accepted, and the issue of the order implies no mistrust of that assurance. Equally the allegation that the order was in any way directed against Theosophy or the Theosophical Federation is without any foundation. The order was dictated entirely by the considerations set forth in the earlier part of the answer to the Hon'ble Member's question.