

COUNCIL OF STATE DEBATES

THURSDAY, 26th NOVEMBER, 1931

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OFFICIAL REPORT



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Motion to consider, adopted.

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COUNCIL OF STATE.

Thursday, 26th November, 1931.

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

QUESTION AND ANSWER.

EXEMPTION FROM INCREASED INCOME-TAX OF ALL GOVERNMENT SERVANTS WHOSE PAY IS SUBJECT TO THE CUT OF 10 PER CENT.

THE HONOURABLE DIWAN BAHADUR G. NARAYANASWAMY CHETTI:

(i) Does the cut in pay of 10 per cent. include income-tax?

(ii) Is it not a fact that the increased rate of income-tax applied to all officers from 1st April, 1931.

THE HONOURABLE SIR ARTHUR McWATTERS: (i) The cut in pay will include the increases of income-tax proposed in the Finance Bill now before the Council of State, both by way of surcharges on existing rates or by way of imposition of taxation for the first time on salaries of Rs. 1,000 to Rs. 2,000.

(ii) The increased rates of income-tax in the Finance Bill will apply from the 1st April, 1931, but it is proposed to issue a notification under the Indian Income-tax Act exempting from the proposed increased income-tax of all Government servants whose pay is subject to the cut.

INDIAN FINANCE (SUPPLEMENTARY AND EXTENDING) BILL.

THE HONOURABLE SIR ARTHUR McWATTERS (Finance Secretary): Sir, I beg to move that the Bill to supplement the Indian Finance Act, 1931, and to extend the operation of its temporary provisions, in the form recommended by the Governor General, be taken into consideration.

I do not think, Sir, that it is necessary for me this morning to enter at any great length into an explanation of the details of the Bill now before the House. In the first place, the taxation being of an emergency nature had to be framed inevitably on broad and general lines, and I think that all Members of the House are sufficiently acquainted with it. In the second place, the Bill has been before the country for a month longer than has been the practice in the past with Finance Bills. Indeed, we are within a day or two, as usual, of the end of the extended period. I wish to-day to address myself rather to the more general questions of principle which underlie this legislation, for I think the House will require to be satisfied, in the first place, that an emergency exists of such a nature and of such gravity as to justify the very unusual procedure which has been adopted, the procedure of introducing a Finance Bill in the middle of

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a financial year—a Bill imposing very heavy new taxation, in addition to the heavy taxation which was imposed last March, and a Bill which proposes to cover a period of 18 months. In the second place, I think that the House will require and is entitled, to be satisfied that Government have done all that was possible in the way of reduction of expenditure, so that the gap which remains to be filled by taxation should be as small as possible. These are the two main principles to which I wish to address myself this morning.

First of all, as regards the emergency, I do not really think that any one disputes it or disputes its gravity. To go back to the real causes of it we have to go back very far, to the war and to the legacies arising from the war. But it was possible two years ago to trace the first definite signs of an impending crisis when the heavy fall in prices started which has proceeded with gathering momentum until a short time ago. Last March, the position was still, as we admitted, very obscure. But since then the fall has proceeded with a precipitate rapidity which was unanticipated by anybody. The first point which I have to make, then, is that it is a world-wide crisis, a crisis which has involved not only trade and Government budgets but also currencies all over the world. It is scarcely too much to say that every country in the world is fighting now for the maintenance of ordered society as we know it and, indeed, for the maintenance of civilization. That, Sir, is the position, and, as I have said, I want to emphasise that it is world-wide and India cannot expect to stand outside it. Indeed, there is only one feature in the position of India which is peculiar, and that is that it is in this very difficult financial and economic crisis that we are considering wide, far-reaching schemes of constitutional reform. That alone ought to induce greater caution. A country like India dependent in the main upon the export of international commodities and raw materials was bound to feel the first and direct effects of the fall in prices; but I think it is fair to say that a country like India, where the wealth of the country is created from year to year from the soil, should be one of the first to recover as soon as the tide turns. It is then, Sir, a world-wide crisis.

The second point I wish to make is that the action which Government are proposing is the same as all Governments that can are endeavouring to take throughout the world. They have realized that the only thing to do in a situation of this kind is to re-establish their internal position as quickly as possible to prevent them drifting further into the morass.

Now, Sir, the extent of the difficulty which confronts us can be measured by the extent to which our budget estimates of last March have had to be revised. As the House knows, we anticipate that there will be a deficit this year of about 19½ crores and a similar deficit can be anticipated next year if expenditure and taxation remain the same. For the two years together, there is a gap of 39 crores to be made up. That, Sir, is I think sufficient proof that immediate action was necessary. And as regards the point that the Bill has been framed to cover a period of 18 months there are two points. First of all, to have passed taxation for six months only would have created greater uncertainty, uncertainty in the minds of the business community. It would have meant that imports would have been held back and clearances from bond would have ceased. Nobody would have been certain that the taxation would be continued beyond next March, and in fact we should not have got the

money. That is the first reason, and the second and more important reason is that, as the very object of the whole of this action is to re-create confidence and to restore credit, the advantages of framing your programme for a longer period are very definite and direct. That, Sir, is all I wish to say on the subject of the emergency.

I now turn to the second point, the question of Government's action in reducing expenditure. Now, I make bold to say that six months ago no one would have believed it possible that so much could have been done in the direction of reduction of expenditure as has been actually achieved in these six months, and I think it is only right that on behalf of Government, and particularly on behalf of the Finance Department, we should express our thanks to the Members of both Houses and to the public who have given us such great assistance in achieving this result. Speaking broadly, we have been able, excluding for the moment Railways, to effect a reduction of about 10 crores in the civil and military expenditure. That includes the heavy cuts in pay which, I regret to say, we have had to impose and it also makes allowance for compensation which will have to be given to officials who are retrenched. But I think the House will require to know in a little more detail what has been done. We circulated the other day a great mass of papers, but it is not always easy to get a true perspective and I should like to give the House very briefly a summary of what has been done under the different heads. First of all as regards the Army, the Budget for next year is being framed on a basis of 46.65 crores, which is 5½ crores less than the Budget for the current year. It really is a reduction of 5½ crores, because there are certain unavoidable items of new expenditure, for instance connected with the Indian Sandhurst, which have to be included in next year's budget. The point that I wish specially to make is that that reduction has been achieved first of all by a cut in pay which amounts to 140 lakhs, of which 75 lakhs come from King's Commissioned Officers, another crore has been obtained by postponing the equipment programme, which leaves 310 lakhs which may be classed as items of real retrenchment, and of these only 245 lakhs can be said to be of a recurring character. I think it is important that the House should keep those figures in mind, because it is easy and dangerous to assume that by a mere stroke of the pen the Army Budget can be cut down to 46.65 crores. I have shown exactly what is involved and how far some of these cannot be treated as recurring savings. In the second place, I take the Railways. There the recommendations of the Sub-Committee are being carried out to the fullest extent and the savings from measures already in progress amount to over 5 crores in addition to over 2 crores in cuts in pay. Also it is proposed to appoint a further expert Committee to deal with technical working of the Railways. I mentioned the large amount of savings on Railways, particularly because, although the working expenses of Railways do not come directly into the General Budget, they do in fact affect us directly through our Ways and Means and now that the Railway contribution has for the moment disappeared, it practically means that Railways are not meeting at all the redemption of their own railway debt. Then, as regards the Posts and Telegraphs, here again there was a special Committee and the recommendations of that Committee have been accepted practically in full. It involves immediate savings of about 16.4 lakhs, but the Committee quite rightly addressed themselves to ultimate and permanent economies which will take some little time to carry out. In addition of course there is a large cut in the pay of officials serving in the Posts and Telegraphs. I then

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come to the general civil heads which are covered by three Committees, the General Purposes Sub-Committee, the Committee on Public Works and Audit and the Committee on Stores, Stationery and Printing. The reports of those Committees including the first interim report of the General Purposes Sub-Committee recommended economies of 201 lakhs and we are giving effect to 180 lakhs, that is to say, 90 per cent., which involves a reduction of 24 per cent. in the gross expenditure covered by those reports. Further, on the items which have still to be reported on by the General Purposes Sub-Committee we have plans ready which will involve further savings of 142 lakhs, that is dealing with items which are not as directly susceptible of easy retrenchment as the items which were naturally first selected by the Committee, but on the items which can be subjected to retrenchment the percentage of reduction is 13 per cent., and taking civil expenditure as a whole the savings of 322 lakhs amount to 17.6 per cent. of the total expenditure under review. I think those figures alone show the magnitude of what has been done in the time, but the real point which I wish to make by giving these figures to the house is this, that it would not have been possible to give practical effect to more retrenchment within this period and to take credit for more would simply have meant that we would deceive ourselves and deceive the public; it would amount to this that we would be presenting an unbalanced budget.

Therefore, Sir, I hope the House will agree in view of what I have said so far that an emergency exists which justifies the special action which we are recommending to the House, and secondly that we have done our best to cover the gap so far as possible within the time by retrenchment.

Now, Sir, I turn for a moment to the details of the Bill. In the first place I would call attention to the fact that we are able to save one crore this year and one crore next year by abolishing the system of credit sales of salt. That is a procedure which is of an administrative character, but is particularly justifiable in a year like the present. It will mean that at the end of next year we shall be obtaining the normal amount from salt and shall get an extra 2 crores within the special period in which we are trying to make emergency arrangements. The other point which I wish to mention is as regards the revision of postal rates. The figure in the Bill as presented to this House for the letter rate is $1\frac{1}{4}$ annas and not $1\frac{1}{2}$ annas as it was when the Bill was first introduced in the other House. The rate for post cards is $\frac{1}{4}$ anna. For the rest the procedure adopted has been to impose a uniform surcharge of 25 per cent. on all taxation other than export duties. A few articles have been selected in the customs tariff which for special reasons were considered suitable for higher and special rates, such as artificial silk, boots and shoes and camphor and electric bulbs, and in the case of sugar we have adopted the recommendation of the Tariff Board and have raised brown sugar to the same level of taxation as white sugar. Finally, there are three items that were previously on the free list which have now been made subject to duty, raw cotton at half anna per pound, and dyes and machinery at 10 per cent.

I am quite well aware, Sir, that criticism may be expected of many of these proposals, and a good deal of criticism has been heard already; but in judging them I think it is necessary to remember all the time that they were emergency arrangements and that the main object of them

was to spread the burden, the inevitable burden, as widely as possible. When the amendments on the paper are moved it will be possible for us to give some further explanation as regards any particular items, but as regards amendments generally, the House will of course understand that as this is a recommended Bill it will not be possible for me to accept any amendment. But I do not want the House to think for that reason that the discussion of the Bill to-day is a mere formality. In the first place, as I said, we expect criticisms and I also expect that we shall receive some useful and practical suggestions as regards new or alternative taxation; and though it is not possible for me to accept amendments, we are at a time when it is necessary to look ahead as regards taxation. With the reformed constitution ahead of us it will be necessary to explore every possible avenue, and every suggestion that is made to-day will, I can assure Honourable Members, be most carefully considered; and the second point I wish to make—and one which is equally important—is that the House by supporting this Bill will be taking action of a very direct and definite value. The whole object of our procedure is to restore confidence and improve credit and by supporting this Bill the Council of State will be doing a great deal to help to restore that confidence and to improve the country's credit. (Applause.)

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN (North-West Frontier Province: Nominated Non-Official): Sir, before I begin my speech on the Bill under discussion, I would like to say a few words by way of explanation to take the debate at its very start. Briefly speaking, I had no wish to open the discussion to-day, but I am doing so in compliance with the unanimous verdict of both the elected and nominated Indian Members of this Honourable House. I cannot say whether I will be in a position to acquit myself according to their expectations or not; though I had a very short time at my disposal to prepare myself for the task, I will try my level best to put my case as lucidly as it is within my power to do, and I hope that I will not fail in discharging the duty entrusted to me to the satisfaction of my colleagues. Now, Sir, putting it in a simile form, I would like the Members of this House to take the Honourable the Finance Member as a doctor, and his ways and methods of handling the country's finance as his diagnosis and prescription for the disease from which his patient, *i.e.*, the Budget of the Government of India, is suffering at present. As a matter of fact, Sir, the most important process in the treatment of patients is to have a correct diagnosis of the disease from which the patient is suffering. In case it is taken correctly and the remedies applied for happen to be the proper ones, the patient proceeds towards recovery at once, and, if otherwise, the disease from which he is suffering develops to a serious stage in a very short time.

Now let us see what the Honourable the Finance Member in the capacity of a doctor has to say about his patient's disease. For this purpose we will have to revert to the patient-chart, *i.e.*, the Budget Speech of 28th February last in paragraph 8 of which the Honourable the Finance Member observes:

"So far as concerns those conditions which normally affect our Indian estimates, there is nothing adverse of which to complain. Crops during the agricultural season 1929-30 were fairly good and the monsoon of 1930 was generally normal, producing on the whole, *satisfactory results.*"

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Further on in paragraph 12 of the same speech he remarks :

"Exports have kept up well in volume and the total imports have not declined to a degree appreciably out of proportion to the drop in the value of the exports."

According to him therefore the decrease experienced in the Budget for the last year was not so much due to any remarkable disorder in the exports or imports of the country as to some other reasons which he classifies as :

- (1) General fall in prices,
- (2) Political disturbances, and
- (3) The weakened confidence in India as a field for investment.

To explain these reasons it will be better to quote the actual words of the Honourable Member, in which he holds them chiefly responsible for the deficit in question. Paragraph 9 of his speech under reference closes with the words :

"She (i.e., India) has felt the severity of the fall in the case of what she has to sell but has not obtained a corresponding advantage of the fall in prices of what she has to buy."

Paragraph 13 particularly lays down that

"Although the course of external trade may have been mainly governed by economic causes, internal trade has suffered disastrously as a result of political disturbances."

Paragraph 14 contains the statement that

"The implication of the movement have weakened confidence in India as a field for investment both at home and abroad and this has led to a decline in the prices of Indian securities, both Government and private, to a lack of credit for traders and of capital for new enterprise and to a steady export of capital from the country.

This is a brief summary of the diagnosis taken by the Honourable the Finance Member of the economic and financial condition prevailing in India during the year 1930-31, with the inference that the deficit in the last year's Budget is chiefly due to the reasons stated before.

Now, Sir, let us see what remedies were applied to remove the defects resulting in a deficit Budget for the last year. In the first instance he was glad to announce a reduction of 1.75 crores of rupees in the military expenditure and a retrenchment of 98 lakhs in the civil expenditure, aggregating to 2.73 crores against the deficit of 17.24 crores, *vide* paragraphs 30 to 42 of his speech under reference. To make up the remaining deficiency of 14.51 crores, new taxes were proposed by way of increase in the rates of income-tax, super-tax and custom duties on liquors, sugar, etc. Surcharges were levied at 2½ per cent. to 10 per cent. Schedule, 5 per cent. to 15 per cent. Schedule, 10 per cent. to Luxury or (30 per cent. Schedule).

All these measures of reduction in civil and military expenditure and increase in the existing income by means of new taxation were adopted to have a balanced Budget at the close of the current year. But what is the result, Sir? The Honourable the Finance Member tells us on the 29th September last that the Returns of the first five months of the current financial year will fall short by at least Rs. 10 crores. The income-tax will be deficient by 1½ crores and the salt tax by something about 8 lakhs. All this aggregates to 11.32 crores and apart from this the traffic returns

on railways are showing a very disquieting position and all this at a time when the monsoons are considered to be satisfactory and the political disturbance at a stop after the truce between the Congress and the Government.

What is the inference then that can be drawn from this position of the country budget? Will it not be this that either the reasons of the financial crises as taken by the Honourable the Finance Member are not correct, or the remedies applied against them are not the proper ones. Doubtless it is either of the two, and to my mind it is the remedies that have not proved effective in their operation. Three principal reasons have been attributed to the fall in the last year's Budget. Of these, the second one, *i.e.*, political disturbances, are no more for the present moment at least. The first and the third therefore demand the immediate attention of the Government, and it is in this line that we ought to proceed more carefully and cautiously. In order to meet these we ought to take a lesson from the past experience. Our experience of the last 5 months shows that the proposed reductions to the extent of 2.73 crores in the military and civil expenditure along with abnormally enhanced rates of income from all sources have not been found efficient to produce the desired result of balancing the Budget for the current year. On the contrary we are faced with a further deficit of 11.33 crores only within a period of five months against expectations. It follows therefore that the methods adopted some six months back to improve the financial position of the Budget have not turned out to be of any benefit and in view of the results obtained I do not think that the only remedy to better the condition of the country's finance lies in resorting to slight reductions in Government expenses and enhancing the rates of those sources of income which are already proving a burden to the general public. I submit therefore that some substantial and permanent method should be adopted to meet the situation created by the economical depression in the country. Increase in taxation has not proved fruitful up till the present moment and it cannot be expected to prove so even in future.

I am sorry that I cannot agree with the Honourable the Finance Member's view desiring the public to appreciate that the Government are not so much increasing the total amount of taxes levied as providing, by increasing the rates, for collecting the same amount of revenue. Nominally it may be the same amount of revenue but in reality it is not, because on account of the fall in prices the rupee has a greater purchasing power. At the same time, the burden of taxes is much greater because also of the decline in the national income, for according to Findlay Shirras the national income in 1924 stood at Rs. 32,600 millions, whereas in 1929-30 it has come down to 28,090 millions of rupees. Since then the fall must have been even larger. The retrospect has been gloomy and the prospect is feared to be more so in view of the following: (1) The additional taxes imposed during the war still remain. (2) Additional taxes imposed to cover the deficits of 1918—1922 still continue. (3) Nothing out of the gain from exchange since 1922, from fall in prices, from the appropriation of currency reserve, from automatic savings on military expenditure has gone to the relief of the tax-payer. (4) As already pointed out by me while discussing the General Budget on the 7th March last, Sir Basil Blackett in his Budget speech for 1925-26 had the frankness to admit that "the level of taxation here is much above the pre-war figure." The Honourable Sir Arthur McWatters during his evidence before the Currency

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Committee was asked the question, "You think taxation is undesirably high?" and he replied, "I do". In spite of all this the country is asked to submit to more additional taxes to the extent of 4.10 crores in the Budget for 1930-31, Rs. 14.82 crores in the Budget for 1931-32 and Rs. 9.38 crores in the second Budget for 1931-32. Now, Sir, India is an agricultural country and consequently the wealth or poverty of the people mainly depends on the prices of their agricultural produce. When the prices experience a general fall does it not mean that it adds of itself an increasing and real burden to the people paying the existing taxation? Taking it in another way, Sir, it may be shown that the tax revenue from principal heads in 1921-22 was 64.77 crores and the Calcutta index number of prices was 178, whereas the tax revenue from principal heads in 1930-31 is 73.49 crores when the Calcutta index number of prices was 101 in December, 1930. Measured in terms of the rupees of 1921-22 the taxation of the Central Government in 1930-31 is equal to 129.5 crores showing an increase of 99.8 per cent. since 1921-22. Against this the expenditure to-day is higher than that in 1921-22. It was 143 crores when the Calcutta index number of prices was 178. In 1931-32 the expenditure is 136.94 crores when the Calcutta index of prices was 93 in July 1931. Measured in terms of the rupees of 1921-22 the expenditure of the Civil Government in 1931-32 is equal to 262.1 crores showing an increase of 119.1 crores as compared with the expenditure of 1921-22, or stating it in another way, what you could get for a rupee of 16 annas in 1921-22 you can get agricultural produce of that quantity for 8 annas 4 pies to-day. It is therefore that I respectfully submit that in view of the serious fall in national income, particularly from agricultural produce, the present is the worst time for additional taxation and I am afraid it will not result in a satisfactory solution of the present day financial trouble. We have a precedent in the case of the additional taxation of 1920 and 1923 which was levied to cover the deficit and not to provide for remission of contributions and, yet, in spite of that, the surpluses since 1923 were not utilised for the relief of taxation. On the other hand, the Meston Committee did not say that the Central Government should impose additional taxation in order to remit contributions. Similarly Sir Walter Layton has not recommended that the Central Government should create by additional taxation a surplus for distribution to the provinces.

Under the circumstances I am afraid the imposition of additional taxation as proposed will simply aggravate the economic situation. It is necessary, therefore, to increase the agriculturist's purchasing power by lowering the prices of manufactured goods and not by raising them by increasing the customs duty. By doing so you will be acting in accordance with the advice of Sir Walter Layton, who says that the standard rate of duty of the Indian tariff, i.e., 15 per cent., with 30 per cent. on luxury goods is already high for a mainly agricultural country like India. But what is the state of affairs in practice? The Taxation Enquiry Committee in its Report, paragraph 502, made a few recommendations. Far from affording relief to the overburdened classes by carrying out those recommendations, the customs duty on conventional necessities such as sugar, kerosene oil and matches have been increasing. No reduction has been made in the value of non-judicial stamps or court fees. The duty on machinery is on the increase, although it is proving injurious to agriculture and industries. Other protective duties are being renewed from year to year at the cost of the consumer.

Such a state of affairs has resulted in the present financial crisis, to meet which I would like to place a few of my suggestions before the House. These, if acted upon, are sure to bring about the desired result of getting a way through the present difficulties. In the first instance, I would suggest more reductions in the civil and military expenditure bringing it to the pre-war level of 1913-14. This, I think, is most expedient in view of the general fall in prices. Since the present day figures of expenditure were reached on account of increase in the cost of living, it stands to reason that the present day decline in the cost of living owing to fall in prices should also be taken advantage of by effecting a corresponding reduction in this expenditure. Now these expenses are incurred for the sake of Europeans as well as Indians in service, but as it is in the interest of India to curtail her expenditure, I think the Indian element ought to submit to the sacrifice demanded of them without any hesitation. This action of theirs will even induce others to follow their example. Although I know it full well that for the present at least it will be difficult for the Europeans to fall back on their incomes of 1913-14, but if they agree to submit to the necessity of the hour, their sympathy with the country they claim to bring on a par with the rest of the world in civilisation as well as financial status will no doubt be highly appreciated by the Indian nation. By resorting to the level of pre-war expenditure there can be a saving of 33·09 crores of rupees from the civil and military expenditure only. The military expenditure in 1913-14 stood at 31·89 crores, whereas during the year 1931-32 it has reached the sum of 53·63 crores. The civil administration in 1913-14 cost us only 5·15 crores, whereas it costs us now nearly 16½ crores in spite of the fact that the provinces have taken over several functions. The question of efficiency is sometimes advanced as an impediment in the way of falling back upon the pre-war expenditure. The Government of India was running quite efficiently before 1913 with its expenditure of those days. Since 1920 it has made over certain functions to the Provincial Governments, for instance, irrigation, famine insurance and industries. It ought, therefore, to reduce its expenditure with the exception of legitimate increase in the nation-building departments in the areas directly administered by the Government of India. Even in the areas administered by the Central Government there is a sufficient margin for reduction in non-nation building departments. For instance, Delhi Province has a Chief Commissioner although its area is smaller than that of a district of the Punjab. In Ajmer-Merwara there is a Chief Commissioner and a Commissioner as well. I think it will be better if Ajmer-Merwara is amalgamated with Delhi Province under the charge of the Chief Commissioner, Delhi Province. By effecting this amalgamation there can be a considerable saving of the emoluments of a Chief Commissioner and a Commissioner. At the same time the question of creating new provinces should be left out of consideration as the finances of the country does not permit this arrangement. On the other hand the newly created provinces should be re-amalgamated with their old province in order to reduce the expenditure.

As regards Railways, I fail to understand why every railway servant is allowed a certain number of free passes. I do not think they receive lower salaries as compared with the other departments. The system of free passes should be discontinued altogether. The frequent use of railway saloons and reserved compartments should be discontinued during the period of financial stringency. When the Prime Minister of England is travelling by underground railway, there cannot be any reason for the

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use of these saloons and reserved compartments by the officials at large, and especially the junior railway officers. The companies run the railways always at a profit but since the State has taken over their management these are reported to be running at a loss, the obvious reason being its top heavy overhead charges.

There is no need for the up-keep of dak bungalows, P. W. D. bungalows, railway rest houses and circuit houses, all four located in one station, and especially when there are hotels in a place. Ambala is a typical example of this kind, where there are all these bungalows as well as four private hotels. These can be sold out and the passengers or officials on tour can arrange their accommodation in the hotels or with their friends.

There is no need for a permanent Tariff Board in view of the financial stringency. In case of any particular necessity a committee can be appointed consisting of two officials and a non-official acting honorarily. Provincial Governments should be asked to have one Public Service Commission for the whole of India. The Government of the United Provinces is selecting its candidates through the aid of the Central Public Service Commission, and there is no necessity whatsoever for separate provincial Public Service Commissions.

No doubt income on taxes is generally on the decrease. For instance, take the case of Opium the income from which source in the year 1931-32 has come down to 2.15 crores from a high sum of 7.84 crores in the year 1911-12.

The general position is that we should vote Government supplies in each department for the expenditure incurred in 1914, and the Executive be asked to justify every additional item over and above the level of 1913-14 in this period of national emergency.

Before resuming my seat I would like to add that I do not want to have a Socialistic Budget in taxing the rich people only. The poor people are enjoying as much protection of the Government as the wealthy and in consequence there should be a universal rate of taxation as is provided in the Muhammadan Law. The Islamic Law does not make any distinction between the rich and the poor, for any person having an income of 100 rupees a year is bound to pay 2½ per cent. of it or any portion thereof according to the amount of his income. When a widow holding half an acre of land is asked to pay her quota of land revenue, where lies the unfairness in asking a person with an income of 40 rupees a year to pay his quota of taxation, i.e., one-fortieth portion of his income according to the Muhammadan Law? After all, the British Government has taken this country from the Moghuls and as such they are the inheritors of that Empire which used to collect taxes in accordance with Muhammadan Law, i.e., a tithe of the agricultural produce and one-fortieth of the capital income. These taxes were levied by the Saracens and the whole Muslim world and I do maintain that by this method of taxation the Government of India will get more, or at least the same amount of income as is estimated at present, from income-tax, super-tax and other objectionable direct taxes, without making the rich people to be a special target of their taxation. Be it known to the Honourable the Finance Member that the rich man is not sitting idle on his money, but he is circulating it by means of investments and employing labour to the advantage of the poor. If the Government intend to hit hard the

rich people only, it means they are fostering the methods of bringing in more unemployment and ruining the country's industries. Increase in unemployment will create more agitation in the country which after all is one of the reasons held responsible for the deficit Budget by the Honourable the Finance Member in his speech which I had the pleasure to refer to at the very commencement of my speech. As I am a nominated Member and this present Bill is a certified one, unfortunately I have no other alternative but to vote for it, but I cannot express my feelings for doing so. At the same time I would request the Honourable the Finance Member that the policy of always increasing the crushing and overburdening taxation should be abandoned at the earliest possible opportunity. And now I will ask my friend Mr. Basu and the Honourable Lala Ram Saran Das to advise us with their expert opinion, and I hope they will prove their mettle in dealing with this subject.

THE HONOURABLE MR. E. MILLER (Bombay Chamber of Commerce): Sir, whatever our views in regard to this supplementary Finance Bill may be, I feel sure all Honourable Members of this House must sympathise with the Honourable the Finance Member in the very unpleasant task he has had in framing the Bill.

Now there is no doubt whatever about my feelings in regard to the Bill and had it come to this House in some other and more usual form, I should have had quite a lot to say about it, but in view of it having been certified by His Excellency the Viceroy, I feel inclined to sum up my remarks in the following few words addressed to the Honourable the Finance Member:

I do not like this Finance Bill.

For why would take too long to tell.

But this I'd have you know full well.

I do not like your *horrid* Pill.

I say I feel inclined to leave it at that but I do not think, Sir, I can allow the matter to pass quite so light-heartedly, and although I suppose I have got to swallow the pill, I beg leave to offer a few criticisms in no unfriendly spirit but with the desire to be helpful at some future date.

First of all I would say that I came here last week armed with instructions from the Bombay Chamber of Commerce to oppose the proposal that clause 8 should have any retrospective effect in so far as salaries are concerned, and to demand that the surcharge tax on salaries should only take effect from the date the Bill becomes law.

However, the Honourable the Finance Member has explained elsewhere that it was the Government's original intention that the proposed surcharge of 25 per cent. should not come into effect until the date the Bill was introduced and that it was only when this was found impossible under the Income-tax Act in its present form, which provides that any income-tax imposed must apply for not less than a financial year, that the proposal was amended to a surcharge of 12½ per cent. for the present financial year and 25 per cent. for the year 1932-33.

That being so, and being President and representative here of what I believe the Government consider a reasonable and sober-minded body, I do not feel I can reasonably demand something which I am informed is, under existing conditions, legally impossible. I hope, however, that early steps will be taken to amend the present Income-tax Act, so that action such as the Bombay Chamber proposed will be possible should a similar occasion arise at some future date.

[Mr. E. Miller.]

Sir George Schuster has admitted in another House that the retrospective effect of this clause is the most objectionable feature of the Bill, and I agree with him. There is no doubt that it will create distinct hardship on many, if not all concerned, to have to pay up for all these months back to last April. In considering this the Bombay Chamber were not only thinking of its members and their European staffs, but also the Indian clerical staffs and other salaried individuals who are of limited means and who live from month to month with little or no margin for unforeseen expenditure. It is no good saying they have known of this since September and should have been providing for it ever since by putting aside each month the equivalent of another 25 per cent. surcharge. These poor people could not be expected to have done this, but naturally would be much more inclined to think that some remission would be made in regard to the back months if ever the surcharge was put into effect, many probably hoped it never would be enforced. However, the position is such that there seems no way of avoiding it and we must accept it, but under protest.

Now with regard to the other proposals for increased surcharge on import duties and new duties imposed, the Bombay Chamber of Commerce are not satisfied that in every case the measures proposed are the best as emergency duties, and they feel other channels might be explored with advantage. They are therefore strongly opposed to agreeing to these in every case for such a long period as eighteen months and I am instructed to request Government to give this House a definite undertaking:

- (1) That at the time when the Budget is normally presented and discussed, *i.e.*, during next February-March Session, an opportunity will be given for the consideration of alternative proposals for raising revenue during 1932-33 other than those now enacted, and
- (2) That in the meantime Government will consider and investigate any such proposals that may be put forward by responsible bodies or individuals.

I may say that this request comes not only from the Bombay Chamber of Commerce, but also from the Bombay Branch of the European Association, so that in putting this forward it must be recognised that it comes from a very powerful group and I hope it will receive the full support of this House.

It may also be found necessary at the next Session to reduce some import and excise duties, and in this connection it seems to me that two duties that will have to be carefully watched are those connected with motor cars and petrol. The duties are now so high that they must affect seriously transport and I should not be surprised if many of the small bus services, which carry from interior villages to the larger centres served by the Railways, will have to close down, which will not only cause great inconvenience but have a far-reaching effect on trade, railway receipts and development generally. It was suggested recently by Sir George Rainy at the Railway Conference, when the raising of freight rates was discussed, that it might be advisable in some instances to even reduce rates in order to maintain the tonnage carried, and I believe it would pay the Government to reduce the motor car and petrol taxes to below those obtaining in April last. In doing so, however, I would recommend that

the Government of India should seek the co-operation of Provincial Governments with a view to ensuring that any reduction made by the Central Government should not be taken advantage of by Local Governments to enhance taxes within their control. Under the proposed taxes, none but the wealthy will be able to use motor cars except when urgently necessary for business reasons, while the demand for new cars will practically cease to exist.

With regard to retrenchment, I have made a rather hurried examination of the Committee's recommendations in their interim report and I think where these have not been accepted by Government in full, the reasons given in most cases have been most fair and reasonable. In some cases, however, I think the Committee in their anxiety to cut down expenditure have quite failed to appreciate the importance of maintaining the efficiency of certain services. Any proposals connected with the development of the country, as for instance Agricultural Research, and the use of modern methods for the improving of crops and the cultivation of fallow land, should be encouraged with a view to their activities being extended, so that the country may reap the full benefit when trade conditions improve. On the other hand a subject that seems to have escaped with a very light blow from the axe is Education, the cut recommended being most inadequate, and this calls for further serious investigation.

Civil Aviation has received a severe blow and in these times the foolish policy of reserving this as a "key" industry and confining it to Indian enterprise should be thrown overboard and the service should be extended all over India by whatever method is available. If Indian firms come forward, by all means let them be encouraged, and in this connection Messrs. Tatas deserve the fullest support in their attempt to establish a Karachi-Bombay-Madras service. I hope the Government will not let this opportunity pass merely for the sake of effecting some small economy, but rather have the big idea and the vision to see that not to encourage this venture would be a retrograde step which may cost the country more in the long run.

In matters of this sort and all other forms of opening up communications, we cannot afford to lie back and await better times. It is not a business proposition to adopt this resigned attitude. The means must be found just as any large business concern is finding the means to develop during this slack period, so that the country may be ready to take full advantage of whatever is offering when an all-world revival takes place. I believe this will come sooner than many expect and at any rate it is the line and policy we should work on.

It was suggested by an Honourable Member in the other House that the Budget should be balanced by loans, which proposal the Honourable the Finance Member quite rightly rejected. But having balanced our Budget and maintained our credit in the eyes of the world, I think it is quite a fair business proposition to recommend the floating of loans for specific development schemes, such as opening up communications in the interior and fostering all agricultural activities. If the country is to take her proper place in the world of commerce when conditions improve, the present dull period must be used for constructive work, otherwise India will be left behind in the race.

One point more and I have done, and I am afraid this comment of mine will be unpopular with the Services to which I am referring, amongst whom I like to think I count many friends of long years standing. My remarks are connected with the 10 per cent. cut to which they have agreed

[Mr. E. Miller.]

but which will first take into account the increased income-tax before the deduction is made. I think the general feeling is that in consenting to this qualified cut, these Government officials have not entered quite so fully into the spirit of retrenchment as is generally the case in other circles. I do think that a flat 10 per cent. cut in these days of stringency is not an unreasonable proposal, particularly as the cut is to be the first charge to be withdrawn as soon as the financial position permits.

In conclusion I would appeal to all Honourable Members of this House to pass the Bill as recommended by His Excellency the Viceroy; times are critical and although we may not see eye to eye with the Government, I think in the interests of the country and her credit we should support the Bill and the Government.

THE HONOURABLE MR. BIJAY KUMAR BASU (Bengal: Nominated Non-Official): May I say, Sir, at the outset, that if Lord Irwin admonished us with whips, it was left to His Excellency Lord Willingdon to chastise us with scorpions. Is it not tragical, Sir, that in the course of a year we have been confronted with two Finance Bills, both of which were thrown out by the Assembly and both of which were certified by the Governor General? In March last, Lord Irwin, at any rate, went some way,—be it ever so little,—to meet the wishes of the Assembly; on the present occasion the Assembly has been curtly and sharply dismissed, with the remark: "You shall not make any cuts, because we shall not accept any." Putting it, Sir, in a blunt way, this means that all the Govern-

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ment were willing to do was to allow the Members to indulge in some oratorical gymnastics. If that is the attitude of the Government, if that is the attitude, at a time when, we are asked to believe, great and far-reaching reforms are on the anvil, I can only say that either the Government take the legislators to be a body of nincompoops or that they themselves are suffering from an utter lack of humour.

Proposals calculated to balance the Budget preceded the suspension of the gold standard in Great Britain. Here, in India, our efforts to balance the Budget followed the suspension of the gold standard. In Britain the late Chancellor of the Exchequer sought to derive considerable satisfaction from the fact that whatever other adverse developments might be in store, sufficient safeguards had, at any rate, been taken to avoid any inflationary tendencies at home. It was, so to say, a case of posthumous satisfaction. In our case, the fear of inflation has been somewhat of a penultimate warning. In fact, in the very opening paragraph of the Finance Member's speech emphasis was laid on the importance of maintaining the intrinsic soundness of the internal financial position and Sir George Schuster opened his address with a warning that "once a country's currency is cut adrift from the moorings of a stable standard, such as Gold, it is particularly necessary to avoid getting into any sort of inflationary position resulting from a failure to balance current expenditure with current revenue." This, then, is at once the *raison d'être* and the keynote of the emergency proposals which are now under discussion. I would therefore, I think, be entirely justified if I applied to Sir George Schuster's Budget this supreme criterion: if his proposals are accepted, is that a sufficient safeguard against any possibility of inflation? I may pose the question in another way, is the way in which the Budget is now sought to be balanced, the correct and scientific way? Is this balancing, a real balancing, or only a make-believe, an eye-wash, a mere "dallying with false surmise."

The position, Sir, simply stated, is this. The estimated deficit in the current year is 19.55 crores against which the new provisions are 30 lakhs by retrenchment, 60 lakhs by cuts in salaries, 1 crore by anticipation of salt revenue, 7.11 crores by new taxation, and 37 lakhs by increased postal and telegraphic charges. These measures are expected to result in a total improvement of 9.38 crores; so that the deficit at the end of the current year would be reduced to 10.17 crores. So far as the next financial year is concerned, against an estimated deficit of 19.50 crores retrenchments are to provide 7 crores, cuts in pay 1.90 crores, anticipation of salt revenue 1 crore, new taxation 14.10 crores, increased post and telegraph charges 73 lakhs. The improvement thus expected comes to a total of 24.73 crores. So that the year is expected to close with a surplus of 5.23 crores. Taking the deficit of 1931-32 and the surplus of 1932-33 together, this two-year Budget is expected to result in a deficit of 4.94 crores. Now, how has it been met? The Gordian knot at this stage is cut by reducing the contribution to the fund for the Reduction or Avoidance of Debts by 2.47 crores in the current year and a like amount in the next year. This is the Budget, in brief outline. On the face of it, it is clear, that in spite of all these tall claims made on behalf of retrenchment campaigns, in spite of the much-advertised sacrifices of Government servants through cuts in salaries, in spite of new taxation, which for these 18 months are to fetch in nearly 22½ crores it required a raid on the sinking fund even for the mere technical balancing of the Budget. We have been familiarised by Mr. Churchill, once Chancellor of the British Exchequer, with this expedient of raiding sinking funds. Nevertheless, while procedure of this kind is obviously unscientific and even positively dangerous, I have special reasons to take the strongest exception to this unwholesome practice. In my speech in the spring Session, I urged a strong plea for a more intelligent and a more appropriate utilisation of the debt redemption fund with a view to strengthening the securities of Government. The appeal that I made on this behalf, fell on deaf ears. Strangely enough, the same appeal was addressed to the Government under more importunate circumstances. In the case of the last sterling loan the under-writers were left with a considerable amount of the issue in their hands, and the loan declined to a heavy discount. The under-writers made representations to the India Office, that in a situation like that Government should step in and support the market. The under-writers did not rest content with this appeal, but at the same time a warning was given to the Government of India that unless the London market was assured in regard to a policy of active support to securities as when prices showed undue sagging, London under-writers, would rather not touch Indian sterling issues at all. Even this warning was of no avail. The Government have stuck to their position that the fund should be no more than a dead weight on current revenues. We, therefore, still continue to provide in our Budget on the usual basis the appropriation for the Avoidance or Reduction of Debts, though by the way, the fund neither avoids nor reduces our debts: what happens to it? What practical use is made of it? Whether for all the results produced this appropriation is at all necessary or useful?—these are questions which, even at the risk of horrifying financial puritans here and elsewhere, I must make bold to ask during these times of financial stringency. If there is to be no intelligent utilisation of the large sums set apart for this purpose, I for one would say, now and here, let us have no more of this mock gesture. Let us wipe out the contribution altogether. Let us not saddle current revenues with this burden. Let us in a word make up a good portion of the deficit by dispensing with a futile provision; when it is

[Mr. Bijay Kumar Basu.]

remembered that the provision for reduction or avoidance of debt comes to nearly 14 crores for these two years, the relief that would come from a cancellation of this provision, should certainly be deemed considerable. If this is done, the combined results of the two years will not be a deficit of 4.94 crores but a surplus of 9 crores. New taxes to this extent could, in such circumstances, have been lightened or the over-taxed senior officials of the Government, instead of facing cuts in salaries, could have been given a few more increases or a few more allowances.

I would, therefore, urge that either the contribution to the Debt Redemption Fund should be entirely wiped out or the entire amount kept as it is subject to the important proviso that this fund should be utilised directly and actively for the support of securities as has been demanded by me in this House, by the Honourable the Deputy President in the Assembly, by the investors in the London market and practically by every banker in this country.

On an answer to the issues I have raised the answer to my first question in regard to inflation largely depends. If we decide—and I have no doubt in my own mind that we should so decide—that the provision for reduction or avoidance of debt is essential in the interests of the integrity and stability of Government's credit and if the Government agree and undertake to utilise this fund for open market operations in the securities market, it follows that a Budget balanced by raiding the Sinking Fund cannot be said to be truly balanced. On the other hand, if we decide that the provision is no longer necessary as it has never been availed of to the best advantage, we may then consider that the Budget is not only balanced but overbalanced. I shall leave this part of the discussion here.

I should also from the point of view of inflation arising from maladjustment of current revenue with current expenditure, examine how far the new taxation proposals are likely to yield the results anticipated. I will readily concede that Sir George Schuster should have taken special care to see to it that in his estimates of additional revenue from increased taxation, he has suitably provided for a reduction in consumption. But I must confess that I cannot shake off the fear inspired by my most elementary knowledge of the law of diminishing returns. Indeed, so obsessed am I by this factor that I cannot but give expression to my apprehension that Sir George Schuster may find himself in regard to the new taxes of his Budget in the same position in which he found himself as regards those of the last Budget. I would consider that the better part of wisdom lies in being forearmed, or at any rate, being forewarned, against the likelihood of a short fall of say Rs. 5 crores. This means, therefore, that even if the heterodox interference with the Sinking Fund be winked at, the Budget could be said to be balanced only if Rs. 5 crores are kept somewhere up the sleeve. The problem thus analysed affords a final and conclusive emphasis on the need for further exploration of the avenues of retrenchment, a less tender heart in regard to cuts in bigger salaries and an examination of the soundness of the cuts that were carried out by the Assembly.

THE HONOURABLE MR. G. A. NATESAN (Madras Nominated Non-Official): Sir, having regard to the circumstances in which this Bill has been brought before us, I may say at once that I shall vote in its support but I propose to take full advantage of the exhortation of the Honourable the Finance Secretary that we should give our criticisms and I

propose to do that to the full freedom that I have generally enjoyed in this House even as a nominated Member. I shall give five criticisms of this Bill:—

- “(1) Several of the Budget proposals are antagonistic to the interests of India and we are confident that they will not produce the anticipated revenue.
- (2) It is an easy matter to raise all taxes by 25 per cent. but to get 25 per cent. more by so doing is no more easy than to draw milk from a dry cow.
- (3) Sir George Schuster's Budget is a bad Budget by the test that its whole effect would seem to be to reduce the volume of trade from which revenue comes.
- (4) The Budget is bad again because it ensures that huge sums of money will go into private pockets while the Exchequer remains empty.
- (5) Income-tax has been raised by unheard of percentages in a single year.”

These five criticisms are sentences taken from the *Statesman* whose Editor is the Leader of the European Group in the Assembly and I think they carry their own comment. I will not therefore dilate on them.

Sir, reference has been made to the retrenchment proposals. As one who has served on a Retrenchment Committee in the humble capacity of Chairman, may I say that I voice not only my views but the views of others when I say that we are sorry that full effect has not been given to all the retrenchment proposals.

It seems to me that it is positively unfair for the Government of India, constituted as it is, to be saddled with all the responsibility for framing a Budget and for meeting the deficit. As things stand at present, the Army is consuming a lot of our revenue. I am sorry I have to make these remarks in the absence of His Excellency the Commander-in-Chief. I had thought he would be present, but I hope nobody will accuse me of saying things in his absence. Sir, the Commander-in-Chief himself has inherited a system which has, if I may say so, proved most injurious to the best interests of this country. I cannot possibly reconcile myself to the statement, even though it comes from the mouth of the Finance Secretary or of the Finance Member, that all possible retrenchment has been effected in regard to Army expenditure. For over half a century it has been our cry and that has been echoed by some of the most honoured men who have occupied the most prominent place in Indian politics—some of them, alas! are no more—that the Army in India is always maintained in excess of the real requirements of the country, that the system by which soldiers are recruited is one which is to the advantage of the pockets of Great Britain but ruinous to the pockets of the Indian tax-payer. I am not sure, Sir, that if another Inchcape Committee was again appointed, they will not be able to effect further retrenchments in the Army expenditure. The fact is that whenever this question of the Army in India is considered, the interests of India have more often been sacrificed, and I fear that if the present system of Government is to continue, there will be sacrifices of India's interest in the future also. There has been a reference made to the cut in pay and as my Honourable friend Mr. Miller has referred to it, I should like, as a member of a Retrenchment Committee, as one who

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has played his own humble part in public life, to protest against the manner in which this cut in pay has been effected. Almost all the Committees—probably with the exception of one—suggested a graded cut in pay, but the Honourable the Finance Member, for reasons best known to himself, has not adopted that course, and the result is that we have got a uniform 10 per cent. cut and exemption from the surcharge on income-tax for the higher officers adds poignancy to the situation.

Sir, it has been said repeatedly that this Budget should be voted more to preserve the credit of the Government of India. The Finance Minister who thinks that he has achieved this object by producing a balanced Budget and by showing a surplus makes the greatest mistake of his life. If you wish the country's credit to be sound, you must have contentment and prosperity, and more than anything else the loyalty of the people. You may try to have a balanced Budget; you may try every measure, every policy, but let me tell you in all seriousness that you will not succeed in making the people outside India believe that everything is sound here, because you have produced a balanced Budget. With the agrarian situation proving most troublesome, with a discontented population, with large masses of the people living on bare sustenance, and more than anything else, with the intelligentsia of the country, strongly supported by the people who are bound to stand by them, because they are their own kith and kin, crying aloud for a remodelling of the system of Government, which will give them a proper place in the administration of the country, you cannot possibly say that because you have produced a balanced Budget, the credit of the country is sound. Believe me, you are going about it in the wrong way if you think that a balanced Budget alone means credit for the Government of India. Sir, I do not think any purpose is served by non-official Members harping upon this matter.

I see this is a Budget for 18 months. May I say that to me the only solution is that in those 18 months everybody should wish and pray that the present constitution of the Government of India is radically changed. With a Government of India constituted as it is, utterly irresponsible to the Legislature, no good can be done. You can have a splendid, a great and noble Viceroy with past experience of two Provinces where he has earned fame and popularity, you can have the best Indian representatives to advise you in the Council, but all that is of no avail if the present constitutional machinery is to continue. I hope non-officials and Honourable Members opposite and everybody who is a real friend of India and every Britisher who wishes that the British alliance should be continued will do his very best to see that the death knell of the present system of the Government of India is rung and that a new era of responsible Government is brought into being. If you do that you will be a friend of India and a friend of the British Empire.

THE HONOURABLE MR. ABU ABDULLAH SYED HUSSAIN IMAM (Bihar and Orissa: Muhammadan): Sir, may I move my amendment?

THE HONOURABLE THE PRESIDENT: The Honourable Member is no doubt aware that the statutory rules in regard to a recommended Bill prevent him from moving a dilatory motion as an amendment without the sanction of the Member in charge of the Bill. Am I to assume that he has received that permission?

THE HONOURABLE MR. ABU ABDULLAH SYED HUSSAIN IMAM : No, Sir. Then I will speak on the motion before the House. Sir, the new Finance Bill, which is before us, proposes to introduce new taxation to the tune of 14.83 crores. The old Finance Bill of last March imposed new taxation of 13 and odd crores, making a total of about 28 crores of new taxation imposed in one single year. I am not saying that the whole of this taxation will be realized from Indians, because Indians have not got the money in their pockets to give, and they can very well laugh in the face of the tax-gatherer. But the Bill as drafted is estimated to yield those sums in a normal working year. Our annual expenditure, according to the memorandum of the Honourable Mr. Denning, is expected to be this year 92.91 crores, leaving aside self-balancing commercial departments. This means that we are imposing new taxation of 30 per cent. of the ordinary disbursement of the Government in a single year without any unusual catastrophe like war, famine or anything else. I challenge the Treasury Benches to cite the example of any democratic country in the world which has imposed a taxation of this magnitude in any single year to meet its ordinary day to day disbursements. The British Government, whom we should copy and which is always held up to us as an example, have treated this matter in an utterly different way. They have not imposed taxation, including both their Bills, of more than 11 per cent. of their ordinary disbursements. There is a categorical difference in the way in which England has met this emergency and the way in which the British Government in India is going to meet it. Whereas England has reduced its sinking fund contribution to the bare contractual liability, we are going to pay not only for our own contractual liability of 1.79 crores for the 5 per cent. loan, but we are going to pay 2.15 crores for the railway annuities and about 30 lakhs for the railway sinking fund, and for other loans at the rate of one-eightieth of the excess on 1923. Sir, while England has provided 22 million pounds out of a deficit of 74 millions from economies, we are going to make the magnificent contribution of 90 lakhs in a deficiency of 19.53 crores. We are going to tax India for the composite period of two years, when we are faced with a deficit of 39.05 crores, with extra taxation amounting to something like 22.31 crores, or nearly 60 per cent. of the whole amount. England is going to meet its deficit of 244 millions by imposing new taxation of 40 millions and 80 millions, or 120 million pounds, or less than 50 per cent. Sir, the Railways were expected to pay us 5.36 crores, after making allowance for the loss on the strategic lines, but by a stroke of the pen the Honourable the Finance Member has absolved them from paying this contribution. In a business deal we always receive some value for anything we pay; here we are asked to absolve the Railways from any payment they might make to us, but our liability to pay on their behalf is still imposed. When the Honourable the Finance Member was asked in the other House during the last Delhi Session to reduce his contribution to this head of Avoidance and Reduction of Debt, he said that the items of contribution from Railways and the reduction and avoidance of debt were so closely connected with each other that it was difficult to strike out one without cancelling the other. This provision for the reduction and avoidance of debt is a canon of sound finance, but the way in which the Government of India is working it, has made it a sorry joke. During the year just ended, 1930-31, our deficit, without making provision for this head, was 6.50 crores, and although we were faced with a deficit still the provision for reduction or avoidance of debt was added on to make the deficit from one of 6.50 to one of 12.68 crores. Is it sound finance that we should

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borrow money to make provision for reduction and avoidance of debt? What is the use of reducing your debt when you are contracting additional debts to reduce your debts, and that too in the face of the fact that our Treasury Bills are being issued at the unheard of rate of 7·2 per cent.? We are taking money at such high rates to reduce our debts which were at something like $5\frac{1}{2}$ per cent. (the average for the last year). Now, Sir, I do not understand how the Finance Member can justify his statement on financial affairs when his own remark is, "that the foundation on which customs duty has been based is fluctuating". This is his first remark: and his second remark is that the "effects of the reduced gold value of the rupee on imports are still unknown, estimates, particularly of customs revenue, are, to say the least, highly uncertain".

We are asked to believe as gospel truth the statements contained in the budget statement which according to their author are like this, unreliable. And the soundness of the financial position is sought to be secured by these make-believe arrangements, and the Government cannot accept any cuts made in the Assembly by the representatives of the people. It may be of interest to know that not a single elected Member, with the possible exception of an Honourable Knight, voted for the Government measure in the Assembly, and even nominated Members went against it. I am sorry that the Honourable the Law Member, who is our Leader of the House, is not here, because I should have liked to be enlightened on the point which has been raised by two of our Honourable colleagues, namely, that nominated Members have got no option but to vote for the Government. I should like to be enlightened on the point. I am sorry I do not find Mr. Emerson who would have deputised for the Leader; because he is the great authority on all matters at variance between Government and Indians. The point is whether nominated Members are nominated to the House to represent any interest or whether they are expected simply to come here and vote for the Government. I thought that was the duty of the Government official benches. We never expect them to look into the merits of the thing; we know that they are here for this purpose.

(At this stage the Honourable Sir Brojendra Mitter took his seat in the Council.)

Now that the Honourable the Law Member is here, may I repeat my request, Sir

THE HONOURABLE THE PRESIDENT: I think the Honourable Member might continue his speech.

THE HONOURABLE MR. ABU ABDULLAH SYED HUSSAIN IMAM: As far as that point is concerned, it is finished, but I should have liked to have a reply.

Now, as regards the customs revenue, which the Honourable the Finance Member is expecting, he has taken into account the increased duty and 25 per cent. surcharge, but he has not taken into account the equally effective factor of 22 per cent. reduction in the gold value of the rupee. It is such an enormous thing and such a weighty item that in the face of its disregard, I do not think it can be claimed with any justice that these estimates are reliable to any extent; they might fluctuate either to the betterment or to the worsening by considerable sums. Our income expected from customs increase this year is 4·85 crores. Here I must recount a fact which may interest the House. When the first Bill was on the anvil in the other House, an elected Member, a lay Member, made a prophecy that the Honourable the Finance

Member instead of realising 136 crores for which he had budgeted would realise 125 crores. Strangely enough I find that, according to Mr. Denning's memorandum, we are going to realise this year according to the revised Budget only 125.91 crores, which means that the lay Member of the Assembly went wrong to the extent of less than .8 per cent., while the Finance Department with all its paraphernalia of Secretaries, Under Secretaries and functionaries *ad infinitum* went wrong by 8 per cent. The aim of the Honourable the Finance Member for the betterment of the yield from customs would have been served without imposing a surcharge by the decrease in the gold value of the rupee which has increased our customable value of all the articles; on 70 per cent. of articles certainly which come from countries outside the British Empire, and on 30 per cent. probably from the British Empire; because it is a well known fact that reduction in the gold value of the currency always increases the internal prices. English things would have increased in prices, and we would have got the increased customs duty. Our end would have been served, simply by devaluation of the rupee; and there was practically no need for imposing this surcharge. I will make this point clear by stating that the landed cost of 100 dollars worth of goods in February used to be something like Rs. 270, plus the 15 per cent. general tax or Rs. 310-8-0. The customable value of the same article today has already increased to Rs. 360. In addition to that the 15 per cent. duty was increased by 5 per cent. by the first Finance Bill this year and it has been increased by 5 per cent. again by the second Finance Bill. We are going to have 25 per cent. duty on this article, so it cost $360 + 90 =$ Rs. 450. So the landed cost of commodities in India imported from outside has increased by about 50 per cent. With the decreased purchasing power of India, which has been accepted by the Honourable the Finance Member himself to be very great, and which has been so ably dealt with by my Honourable colleague, Sir Akbar Khan,—it is high time that the Finance Member should not have imposed the surcharge. He cannot go on levying enormous duties by the simple expedient of increasing taxation. There is a limit at which people will give up buying things. I will just cite the examples of five items which are selected from the list, which prove conclusively that the law of diminishing returns has intervened and has taken away all the good of increasing taxation by actually making us lose enormously in customs duties. Spirits were expected to give 51 lakhs more than last year, but now we expect under it 70 lakhs less, which makes a net loss of 19 lakhs. Silver was expected to give us 75 lakhs more; we now expect to lose 100 lakhs; the result is a net loss of 25 lakhs. Cotton piecegoods were expected to give us 90 lakhs more, but we are going to lose 200 lakhs on that, so that we will be losing in effect 110 lakhs on that. The result of all these and other items is that instead of increasing the income from customs we are decreasing it. I draw the attention of the Honourable the Finance Member to the returns from customs duty in October, which is actually less than the income in October last year. Although you have increased your customs duty by the first Finance Bill and by the second Finance Bill, it is actually less than last year, and still you are budgeting to get a betterment of nearly 5 crores than last year. Our return for the seven months has proved that we have not yet come up to the actuals of even last year, and still we are trying to say that our Budget is balanced. As far as I can see I am more sure of there being a worsening to the extent of 4 crores than a betterment of 4.85 crores that you expect. You have so increased the customs duty that with the reduced purchasing power we are absolutely powerless to buy goods imported into

[Mr. Abu Abdullah Syed Hussain Imam.]

India. Here I should like to say something about another statement which the Honourable the Finance Member made in the other House, that the reduction of imports will increase our balance of trade. A statement of this sort would have looked better if it had come from an ignorant Congress volunteer, than from a responsible and experienced financier like the Honourable the Finance Member. What is the fact of the matter, Sir? Last year, while our imports were higher than this year, our balance of trade for five months was 36 crores; this year our balance of trade for the first five months has come down to 9 crores with a reduced import. India's experience, with the exception of one year, 1920, has always been that an increase of imports has always been followed by increased balance of trade.

The Honourable Sir Arthur McWatters justifies the introduction of this Bill for 18 months on the ground that if he had not done this the customs income would have fallen because people would not have taken delivery of goods from the bonded warehouses. Well, I can only say that we never expected such statements from Sir Arthur McWatters. Customs duties are never imposed for any period: they are imposed not for 18 months or 12 months, but for all time, until you take them away. And the things you are going to impose for 18 months or 12 months are the income-tax and the postal charges and the salt duties. He has given no justification for them.

There is one thing more I should like to say, Sir, that after all this trumpeting and loud acclamation that we are going to have retrenchment and retrenchment, what is the result? We are going to have the magnificent sum of 90 lakhs by retrenchment this year. The idea of having a Retrenchment Committee originated in the mind of the Finance Member on the 28th February, 1931, but he did not take action until the end of May, when the first Committee was called into being to divide itself into 6 or 7 parts, and even those were not definitely asked to report sufficiently early to give effect to their recommendations this year. Most of the Committees assembled just prior to the Simla Session or during the Simla Session. I do not know who is to blame, whether we are to blame or the Government Departments which delayed their replies, because I did not belong to all the Committees. So I do not know what was the real cause, but most of the reports came into the hands of Government during the Simla Session and we had six months in which we could increase the burden of taxation by 5 crores, but in which we could not effect any economies. Why was this? That is the question. Was it because the Honourable the Finance Member, when he brought forward this Retrenchment Committee, was himself convinced that all avenues of reducing expenditure had already been explored? His idea was that this Retrenchment Officer, Mr. Jukes' report would show us where and why these expenses have increased and where they can be reduced. I was sorry to find that Mr. Jukes' report was more a justification for expenditure than a recommendation for reduction of expenditure. Because the Finance Department was so incessantly hearing the cry of Indians for self-government, they (the Finance Department) gave practical Swaraj to all the spending departments of the Government to do what they liked. Sir, the Honourable Sir Arthur McWatters when he was introducing this retrenchment measure promised to this House that we would be consulted on any measures that were adopted, but we are sorry that we were never consulted on this measure and we have not been given any opportunity of

discussing these reports when they have been submitted. I should like, Sir, that during the next Session, the House might be given an opportunity to have a say on this matter. I am not positive that they have explored all the avenues because most of the reports were written in a hurried manner and without going deeply into the thing. Therefore, just as the Government explored those departments that have not been inquired into by the General Purposes Retrenchment Committee, and come to the conclusion that 142 lakhs could be reduced in these departments, just the same if the Government were genuine in their idea of effecting retrenchment they could have taken steps, just after the last Delhi Session, to find out where and what reductions can be made, and if they had done that we would not be here complaining of non-co-operation of the Government with the non-officials.

Sir, in England a deficiency of 74 million pounds was met by 22 million pounds reduction and economies. That comes to something like 30 per cent. of the deficit. In India we are going to meet this including the cuts in pay by 90 lakhs which is less than 5 per cent. This is the categorical difference between a country governed on democratic lines and a country that is a slave to others.

Sir, as far as this Finance Bill is concerned, the justification for extending its provisions for 18 months has not been shown. I called the attention of the Government to the fact that last year although we had a deficit of more than Rs. 12 crores we did nothing to meet that deficiency. This year I am very glad that the Government proposes to meet it. The only difference between us and the Government lies in the method in which it should have been met. The fact that the Honourable the Finance Member has to replenish his armoury every year with new and better-shooting guns to hit harder and to hit more people, is no argument for the necessity of maintaining this standard of expenditure. There is no doubt about the fact that our disbursements have not been appreciably increased from 1921-22, rather they have decreased. But the fact is, that the paying power of the people of India has been so far reduced that every year you have to get better and better arms to shoot more and more people—sometimes you are going to hit double the number of people whom you hit last year (in the case of income-tax, for instance). All this shows that the power to pay is reduced, and as a logical conclusion to that our disbursements too should come down. I am not going to touch on the reductions that ought to be made, because that has already to a certain extent been gone into by the Retrenchment Committees, and these are to be gone into afterwards, and we will most probably have a chance of giving our opinion in this matter in the near future. But I should have liked the Government to have been more willing to reduce their expenditure even in this year than they are going to do now. The way in which the Government has already treated this House with contempt has been again brought into prominence this year too. While the Members of the Assembly were called in to be consulted on the necessity of certifying this Bill, none of the Members of this House was deemed fit to be invited to the conclave, and why was this? Because the Government is sure of its strength and knows that it can safely disregard the elected Members of this House. This is an object lesson to us and we will know how to treat those who are not powerful enough in the next constitution.

THE HONOURABLE MR. Y. RANGANAYAKALU NAIDU (Madras: Non-Muhammadan): Mr. President, I rise to enter my strong protest against the manner in which the Government have brought in this Supplementary

[Mr. Y. Ranganayakalu Naidu.]

Finance Bill in its present certified form. Sir, the present Legislative Assembly is well-known for its moderation. They have never obstructed the Government for the sake of mere obstruction. They have never been irresponsible. They cut down only 4 crores out of 22 crores demanded by the Government. The Honourable the Finance Member was not satisfied; he wanted his pound of flesh. He has got the Bill certified. Sir, the Legislative Assembly merely did its duty in rejecting the entire Bill. As elected representatives of the people, they could not allow the Legislature becoming a complete farce.

Sir, one wonders what the Government is going to gain by this arbitrary action. The Legislative Assembly is discontented because its moderate cuts were not given effect to. Resentment against the Government is daily growing stronger in the country. Loyal citizens are slowly being driven into opposition against the Government. In the present state of all-round economic depression the Government will not realise the amounts anticipated under most heads. They may get 4 crores less than what they expect. Revenues will fall when there is popular discontent. The Government could have been more sure of their revenues if they had respected the verdict of the Assembly and they would have retained the good will of all law-abiding citizens.

The Honourable the Finance Member intends to improve the financial credit of the Government by carrying through this Bill. But I ask him, "Will this certified Finance Bill assist the Government in achieving this aim?" The financial credit of any Government will stand high or low in the estimation of other countries, according to the degree of popular support at its back. It follows, Sir, that the credit of the Government of India will rise or fall to the extent they retain or lose the confidence of the Indian nation, speaking through its representatives in the Legislature.

Sir, it is my duty to tell the Government in plain words what the people think about these measures of the Government to balance the Budget. The nation believes that the Government have been, and still continue to be, very extravagant in their expenditure. They are not very wrong in that belief. The Indian Civil Service is the costliest, while the people of India are known to be the poorest in the whole world. Our Army eats away an unduly large proportion of the national income. The Government pursues a currency policy which is often against the interests of the country. Our surpluses in prosperous years are utilised for increasing the salaries of already overpaid officers or they are wasted in exchange gambles. Sir, the people very strongly resent the extravagance and the wasteful expenditure of the Government.

Our objection to the present measure is mainly based on two reasons. The first is that all possible economy has not been effected; the second is that the additional taxation is too great a burden on the people when compared with the very little retrenchment effected. The general impression is that the Government have been very half-hearted in carrying out economies. They have stated that retrenchments would be of a temporary nature but have remained silent regarding their intentions about the additional taxes. Our uniform experience has been that any tax, once levied, is never given up by the Government. I think I can take it for granted that these taxes are intended to remain permanently as a burden on the people, emergency or no emergency. Sir, we have an additional misgiving. We

fear that the Government might stop their efforts at economy as these fresh supplies are voted, and go on merrily spending as before, without any thought for the future.

Besides being an additional burden on the overtaxed people, many of the new taxes seem to be positively injurious to the best interests of this country. They fall within no well-known principles of taxation. Let us take the duty on imported machinery. It will be a very severe blow to the growing industries of this country. Instead of aiding the development of the country's industries and thus creating a source of greater potential income in the future, the Government is trying to kill the goose that has been laying golden eggs. The Fiscal Commission condemned a duty on imported machinery as utterly unsound, even as a temporary revenue measure. Yet the Honourable the Finance Member brings in this clause, certified by the Viceroy, with supreme indifference to all the arguments raised by the Opposition and unmindful of the verdict of the Legislative Assembly.

The import duty on cotton is another blow aimed at the Indian textile industry for the benefit of Lancashire. Not content with the preference already enjoyed by the British producer by the linking of the rupee with the sterling, the Government are trying to give further help to Lancashire by this duty on imported cotton.

The increase in postal rates is another objectionable item. The poor man's salt is heavily taxed and he is now denied the benefits of a cheap postal system. The Government might perhaps get some more money but the agriculturist and the labourer will lose the advantage of a cheap postal service.

The lowering of the taxable minimum for income-tax to Rs. 1,000 is another measure against which I protest strongly. The Honourable Member for Finance, defending this measure in the Legislative Assembly, stated that this was justifiable in view of the great fall in the prices of commodities. Sir, at the time of the Budget in last March, a demand was made that the salaries of the superior services should be reduced. Then the Finance Member replied that there had been no fall in prices to justify that step. When it is a question of the pay of superior officers, prices do not fall. But when the Government want to touch the slender purses of the subordinate officers and clerks, who are all Indians, the Finance Member gives facts and figures to prove a phenomenal fall in prices. Sir, I strongly object to lowering the taxable minimum for income-tax.

The Finance Member says that he wants all this money for the sake of a balanced Budget. Will these taxes balance the Budget this year, or next year? No. We cannot have a balanced Budget for two years more. I would also ask, "Where is the urgent need to balance our Budget now?" We were having a series of deficit Budgets for many years following the Reforms. Then we had successive surplus Budgets. India suffered no loss of credit during those years of deficit. The heavens did not fall at that time. What will be the serious consequences to India if the Budget is not balanced to-day by this certified Finance Bill? Why should not the Government wait patiently for a while till the present world depression lifts? No Government in the world has attempted to balance its Budget by such heavy additional taxation for a short period of emergency. The British Government was borrowing for many years before it thought of

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additional taxation. When the position grew very serious, they first made drastic retrenchments before levying any new taxes. The Finance Member wants us to vote for new taxes even before all possibilities of retrenchment are explored.

I shall admit for a moment the necessity of balancing our Budget. But, Sir, I suggest that the only remedy lies in all-round economy. A very great cut should be made in our military expenditure. It is my firm conviction, Sir, that no one can balance the Budget of the Government of India, not even my Honourable friend Sir George Schuster, unless the expenditure on our White Elephant, the Army, is cut down to its pre-war level. If it is true that our army is not one of occupation, if it is also true that it is not maintained solely in the interests of the Empire but is intended only for the defence of our frontiers, it should be possible to reduce our fighting forces and with that our military expenditure to a very great extent.

Sir, the people of India agitated long for a Reformed Constitution in the Government of India. The present Legislature was the
1 P.M. outcome of that agitation. The country expected certain benefits from the reformed Government. Among other things they also expected some lightening of the high level of taxation. What has happened since? Has life been made more easy for them? No, Sir. Government expenditure has increased by leaps and bounds. Taxation has gone up very much beyond the level of pre-Reform days. Sir, the nation asked for bread. Would I be wrong in saying that they got a stone instead? Taxes have been piled upon taxes; and the present Finance Member has beaten the record of his predecessors. Yet, like Oliver Twist, he is asking for more, but without any of that poor boy's excuses.

(At this stage the Honourable the President vacated the Chair, which was taken by the Honourable Mr. P. H. Browne.)

I make one appeal to the Government. Sir, they are irremovable by Statute; but I request them to feel and act just as if they were representatives of the people, dependent upon the vote of the Legislature. We are all having hopes of a responsible Government in the Centre, in the near future. Let the actions of the Executive approximate to that of the responsible Government to which we look forward so eagerly. In the goodwill of the people alone will lie the strength of the Government; only by winning the confidence of the nation will their financial stability and credit be made secure.

Sir, when a Government is totally unmindful of the wishes of the people, the Legislature must refuse supplies. This course is perfectly legitimate and it is the only constitutional method by which the representatives of the nation register their protest against irresponsible Executive action. Under the present constitution, however, the Government would be totally unaffected. They may carry on by means of certification. But I again repeat my warning. They can never balance their Budget by certified taxes; nor can they keep up their financial credit in the markets of the world.

Sir, with the fullest sense of responsibility I decline to assist the Government in carrying this certified Bill into law: and I call upon all the Members of this Chamber to assist me in rejecting it.

THE HONOURABLE SARDAR SHRI JAGANNATH MAHARAJ PANDIT (Bombay: Non-Muhammadan): Sir, one cannot approach the consideration of a Bill like this without a heavy heart. For, whatever the financial needs and difficulties of Government, the consequences of this Bill passing into law will be obviously disastrous. On the other hand, it is equally clear that without the Legislature granting supplies, as have been asked for, it is impossible for Government to carry on. It is a perfect dilemma for those who on the one hand are prepared to appreciate the difficulties of the Government, yet are quite alive to the position created by the enormous schedule of fresh taxation. I remember to have read the speech of the ex-Finance Member who, in his last Budget speech in 1928, claimed to have left the finances of India in India and her credit abroad on a sound footing. But Nemesis is always alert and whips those whom it wants to punish with scorpions. The Government of India, for whom the Honourable the Finance Member made that brave speech, is soon after face to face with a situation, the irony of which Government themselves have been feeling deeply as a reactionary humiliation. For where is that soundness of the financial condition in India or that credit for solvency abroad? It may be said that if India has stepped into the vortex of a crisis, she is in very good company, namely, that of England. But that is no justification for the present staggering imposition of taxation in India. England is so self-content and financially strong that she may be trusted, if need be, to fight with any big power that may threaten her financially. But that is not the case with India, nor can that be a reason for India being tied to the tail of England and being dragged along with her. This companionship of India with England in the present financial misfortune or the heroic war that England may be waging against it, only reminds me of the fable which I read in one of my school books about the giant and the dwarf. The pegging of the rupee to sterling and not to gold, nor to any ratio that it may be automatically reached, if left to itself, only means that England should have all the advantages and India all the disadvantages of the renewal of a wedlock, which was pronounced to be harmful to India by the last Currency Commission. But I must return to the Bill itself, and I have no hesitation in saying that with such a Bill the Honourable the Finance Member cannot face us with a mind at ease, for he must be knowing in his heart of hearts that he is doing a grievous wrong by this Bill, and particularly by some of its clauses. I do not complain so much of the surcharge on income-tax on high incomes of very rich people, but I would certainly disapprove of the lowering of the exemption level for the purposes of income-tax assessment. The increase in the postal rates is a burden that would heavily and directly fall upon poor people, who are moved away by necessity of employment from their homes and whose only consolation is to send and receive an occasional letter from their relatives at home. The increase in the postal charges hits grievously the poor literate man and the small business man, for whom the Post Office has so far proved a real benefactor. The schedule of import duty also goes against the claim of Government, for their watchfulness of the interest of the masses. Then again it may be said that Government servants have been put into the same boat with the ordinary tax-payers, in that a reduction has been proposed in their salary, but, here again, the proposals cannot be regarded satisfactory, inasmuch as only flat ratios have been proposed and no discriminating sliding scales that may show some special consideration to the poor servants. I do not want to prolong the agony

[Sardar Shri Jagannath Maharaj Pandit.]

of this Bill; also, I have tried my best to enter into the spirit of the speech made by the Honourable the Finance Member in the other House in winding up the debate on the consideration of the Bill. But I am left unconvinced on certain points by that speech as well as the speech with which the Bill has been ushered into this House. If therefore I do not oppose the consideration of this Bill, my attitude till then is not to be interpreted as one of approval.

The Council then adjourned for Lunch till a Quarter to Three of the Clock.

The Council re-assembled after Lunch at a Quarter to Three of the Clock, the Honourable Mr. P. H. Browne of the Panel of Chairmen in the Chair.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS (Punjab: Non-Muhammadan): Sir, we find that this Bill which was recommended by His Excellency the Viceroy to the Legislative Assembly and was thrown out there is now before this House, having been certified by His Excellency. Rumour was afloat the month before last that the Secretary of State for India has instructed the Government of India to adopt this line of additional and fresh taxation and to recommend and certify the Finance Supplementary Bill in case necessity arose and not to accept any amendment whatsoever which may be made by the Central Legislature. It is also said that His Excellency the Viceroy liked to accept the cut of about 4 crores made by the Legislative Assembly, but the Secretary of State forced his hands not even to accept a single cut carried in the original Bill. I would, Sir, under the circumstances request the Honourable the Finance Member to throw some light as to how far this rumour is correct. Silence from him on this point will, and I think is bound to be, misunderstood by the public. We, Sir, who have been elected to the Central Legislature to represent the tax-payer and the public, offer criticism to the best of our ability in the best interests of the country. At a time when the constitutional reforms are on the anvil and when trade, commerce and industry are at their lowest ebb, when agricultural incomes have gone down so terribly, when India is passing through an unprecedented financial stringency and grave economic distress, the new crushing taxation proposals by the Government have caused a storm of angry protest throughout the length and breadth of our country. Contentment and prosperity of the subjects is the index of soundness and stability of any Government. Live and let live is the best policy.

(At this stage the Honourable Mr. P. H. Browne vacated the Chair which was resumed by the Honourable the President.)

The fundamental principle of all taxation is economic recovery and unless that recovery is forthcoming through the improvement of trade, industry and agriculture, how can the proposed monstrous taxation be met? The Honourable the Finance Member by imposing this intolerable burden of taxation wants to prove to the world that India is determined to live within her means. Nobody can afford to live beyond his means; it may be a private individual or it may be a Government. We fully concur with the Honourable the Finance Member in this matter, but we entirely disagree with him in the remedies which he has applied to achieve this end

and the additional taxation which he has thus proposed. Government generally instead of cutting down expenditure, as is done by a private individual, are tempted to increase taxation to balance their Budget, or to live within their means. I am always for balancing the Budget, but not in the way in which it is being done now. It is a matter of fact, Sir, and I want to inform this House that the Government have been living beyond its means during the last five years. In 1927-28 the Budget was said to have been balanced, but on analysis a deficit of 2.22 crores was found. In 1928-29, which closed with a deficit of 32 lakhs, the deficit in reality was found to be 1.06 lakhs. In 1929-30, when the Honourable Sir George Schuster took over the reins of the financial control, there was a surplus of 27 lakhs on paper, but on scrutiny a loss of over 1½ crores was found. In this calculation I have not taken into account a windfall of 1½ crores which came from German liquidation accounts. In 1930-31 the Legislature passed extra taxation of 5 crores, yet the account of that year disclosed a deficit of 12.68 crores. In 1931-32 additional taxation of 15 crores was sanctioned and still there is a deficit of 19.50 crores to be met. The Honourable the Finance Member has within the past three years of his regime put on a further burden of taxation on this country to the extent of 42.31 crores, whereas the tax revenue has been only about 76 crores in 1929-30. If all the new taxation proposals are accepted it would mean that in the year 1932-33 we would have added 35 crores of extra taxation over and above what it was in 1929-30.

As far as the Army expenditure is concerned, I am grateful to His Excellency the Commander-in-Chief who has effected a saving of 4½ crores in the Army Budget in this year. But, Sir, this amount is too meagre considering the present abnormal situation. The Army in the time of Lord Ripon was stabilised and budgeted at 17 crores. In 10 years thereafter the Army Budget rose to 21 crores. For this Afghanistan was blamed and for that reason 10,000 European and 20,000 Indian troops were added to the strength of the then Army. Thus the expenditure rose to about 26 crores and right up to the War in 1914 the expenditure increased to 28 or 29 crores. After 1914, during the three years of war, Army expenditure swelled up to 68 crores and since then it has been slowly coming down and I understand His Excellency the Commander-in-Chief has been good enough to reduce it to 46.65 crores this year. Now, Sir, in case we compare the Army expenditure of India with other countries, we find that the Army expenditure in the Dominion of Australia is 2.4 per cent. of the revenues, in Canada 2.9 per cent., in the Irish Free State 7.2 per cent., in New Zealand 3.9 per cent., in South Africa 2.4 per cent. While in India, Sir, the percentage of Army expenditure is 62½ per cent. in case the Central revenues are taken, and about 30 per cent. in case the total revenues of all the provincial administrations are taken together. This percentage, Sir, is very high and it must be reduced. It may be said, Sir, that in India the situation is different. There are bigger frontiers to protect and so on and so forth. I take, Sir, the instance of Canada, which has a very big frontier towards the United States. When Canada can safely live on a much smaller expenditure, why cannot India do so? Military expenditure in India is two to three times as great as that of the whole British Empire outside Great Britain. The reply may be given that there the country is on good terms with its neighbour. As far as India is concerned, Sir, in the pronouncements which are made from time to time in the Central Legislature by His Excellency the Viceroy, it has always been declared that

[Rai Bahadur Lala Ram Saran Das.]

the relations of India with its neighbouring powers, it may be Afghanistan, it may be Persia, it may be Siam or China, have always been very friendly and that things are going on very smoothly. What we find in America and Europe, Sir, is that a disarmament policy is in swing. I know, Sir, from the information at my disposal that as far as India is concerned all the neighbouring States are very friendly to it and there is no danger of any breach of the peace from them. Therefore, Sir, I would respectfully request His Excellency the Commander-in-Chief to go into the matter of Army expenditure deeply and to effect some further reduction in Army forces to save India and the poor public of India from the burden of this heavy taxation. We are informed by the Honourable the Finance Secretary that every effort has been made to effect retrenchment in expenditure and that was probably the maximum to which the Government could go. I with due deference to him differ from him in that respect. We are all grateful to His Excellency the Viceroy for the noble move that he made in accepting a voluntary cut of 20 per cent. on his salary. We are also obliged to the Members of the Executive Council for the arbitrary cut, though smaller, that they have made in their salaries. But while the Government is advocating a uniform cut of 10 per cent. on all services, its chief services have not followed the noble lead of His Excellency the Viceroy but they have for themselves inaugurated a lower and a differential and graduated scale of cut in their salaries and allowances. I feel, Sir, that when the initial salary of the chief services of India was fixed in the times of the East India Company, in those days the officers of the Company used to do business in addition to their official duties and their business profits were added to the salaries. That was the reason, Sir, that the salaries were fixed so high

3 P.M. in India since that tradition goes on and the salaries have gone on swelling. From the figures that we have before us, Sir, we find that in India the Services are being paid on a far higher scale than in any other country in the world. Now is the time that they should be revised and lowered considerably. Sir, in case we compare the retrenchment that has been effected in England we find that most of the deficit has been met by the retrenchment effected and a very small percentage of additional taxation has been adopted. In England, Sir, the cut in ministerial salaries below £2,000 per annum has been fixed at 10 per cent.; the cut on salaries of £2,000 to £5,000 per year has been fixed at 15 per cent., and for salaries of £5,000 and over the cut has been fixed at 20 per cent. If we take the Commonwealth of Australia, we find there that on annual salaries of one thousand pounds and under a 20 per cent. cut has been made; on yearly salaries of one thousand to two thousand pounds 22½ per cent. and on salaries of two thousand and over, a cut of 25 per cent. has been effected. In India, Sir, this matter has been taken very lightly and notwithstanding the recommendations of the various Retrenchment Committees the Government has not seen its way to accept their recommendations in full. I wish, Sir, that in this time of emergency all Imperial Services will answer and come to the call of His Excellency the Viceroy and accept a higher cut and make a bigger sacrifice which they can well afford.

Sir, we find that, as far as the Budget proposals are concerned, the Government of India has followed the example of the Government of Great Britain in putting before us taxation proposals for the next 18

months. But in all other respects they have not followed the line of policy adopted by that Government. What we find, Sir, is that in Great Britain to meet this worldwide distress the so-called free trade for which England was famous has been thrown overboard and protective duties to the extent of cent. per cent. and more are being imposed. The present Secretary of State in reply to a question in Parliament admitted that the duties on raw cotton and machinery in India which were freshly proposed gave protection to the British industry. I will not deal with these duties now because when my amendment on the subject comes up I will have time then to put this case well before the Council. But, Sir, one thing I want to impress on Government and that is that, while the British Government is taking every step to foster its own industries in India, I am afraid, that effort is not being made. Agriculture has already gone to the dogs. Industry and trade have gone to the wall. The bank rate is being maintained at 8 per cent. though the inter Bank rate is 5½ per cent. The Government is borrowing loans for short periods in the form of Treasury Bills and recently this interest amounted to something over 8 per cent. At this time, Sir, when the bank rate is being forcibly maintained at 8 per cent., which to the ordinary public and to the ordinary agriculturist or merchant means something like 10 per cent., do you think that industry, agriculture or commerce in India will improve and thrive? The big rate of interest, the tariffs, the currency and exchange policy and other factors combined prove that in India no heed is paid to the fostering of industries, no care is being taken to find employment for the unemployed, and that the tariff walls are being so constructed as to put to a great loss or to particularly injure one of the chief or many of the chief Indian industries. As far as unemployment is concerned, this question was taken up in the Central Legislature as well as in the various Provincial Legislatures. Committees and Commissions were appointed to go into the question and to solve it. The recommendations of those Committees came in, but by the time they were to be considered, this bad time came in, and the result was that owing to obvious reasons more than a million people have been thrown out of jobs as compared with the last two years. In England a dole is being given to the unemployed, but here nothing is done to save them from starvation. I wish that when Government says that they want to take care of their subjects, that care ought not to be merely from the lips but should be shown in action as well. The time has come when we find our pockets almost empty. We cannot pay the land revenues; we cannot meet the present taxes. I am not one of those who opposes Government in season and out of season. I want to impress upon the Government that the breaking point has been reached in taxation, and that the proposed taxation will greatly add to the unrest in the country. I do not know where it will lead to. It is all right to propose taxation for 18 months. But I want the Government to kindly bear in mind and see what the actual condition of the people will be after six months. In case they find that the people can somehow bear this taxation, then they can consider their proposal to carry it through for another year. But in case they find that many of the firms are going into liquidation and many of the zemindars are going to the wall—there have been instances in the Punjab where many people of good repute owing to distress have left their homes and cannot be found. This is a novel experience in my life. I have been in business, and have seen people gone bankrupt, people have met with difficulties, but I have never heard of people leaving

[Rai Bahadur Lala Ram Saran Das.]

their homes and they cannot be found. We know great financial stringency does exist. In these hard times the Imperial Bank of India has circularised that advances against Government paper cannot be guaranteed. There can be no doubt, Sir, that in the public mind this notification has caused alarm and led to the belief that Government paper is not worth keeping any longer as a liquid security. People who invested their money in Government securities have already suffered very heavily. Some of the papers have gone down by 50 per cent. in their face value, particularly the 3½ per cent. and 3 per cent. securities. As far as my information goes, leaving aside internal finance, over Rs. 100 crores of capital is sunk in financing trade and commerce by the chief banks, and 1 per cent. addition in the rate of interest means Rs. 1 crore, and 2 per cent. means Rs. 2 crores. I must say that unless the Government comes to the rescue of the people in India and finds some other avenues of taxation, the present taxation will not be in the interests of the country.

I will now come to another point, namely, the patronage of industries. I wish the Honourable the Finance Member may see his way to give an impetus to industries. There is a rumour that the coal freights are going to be increased. That will be another blow to the industries. The industries employ labour on a very large scale, and in case industries do not fare well, it will greatly add to the already big number of unemployed.

As far as the new taxation is concerned, I would suggest that the Government of India might appoint a committee of business men and economists to go into the question of taxation, and in case they are also unanimous in their opinion that the country is not in a position to bear any higher taxation on the lines proposed, Government should meet the deficit by some reduction in the Army. With these words, Sir, I bring to the notice of the Government the great discontent that prevails in the country on the announcement of this new taxation and oppose this Bill.

THE HONOURABLE DIWAN BAHADUR G. NARAYANASWAMI CHETTI (Madras: Non-Muhammadan): Sir, in rising to speak upon the financial situation I have to express a mixed feeling. India is passing through an unprecedented financial depression. This depression is no doubt common to this as well as other countries but the Government of this country do not seem to have realised to the same extent as other Governments have done, the amount of retrenchment that could be effected. The moment the depression was felt, all other countries of which we have information took the earliest step of reducing their expenditure, but in this country retrenchment has not followed as quickly as one would wish. Nor have the retrenchments effected been satisfactory.

Thanks to His Excellency the Commander-in-Chief, there was some reduction in the military expenditure but I do not think it has been satisfactory to the general public. A greater saving could have been shown than the Government of India anticipate. I no doubt fully appreciate the difficulties and I also appreciate the sympathetic manner in which the Military Department have approached the subject, but to most citizens what really matters is the result of Government's efforts, and these have not been very satisfactory. A thorough examination must soon be undertaken with a view drastically to cut down the Army expenditure, and the reduction must be made without any delay. If, in spite of it, more funds are required and if it is absolutely necessary, I for one

would agree to increased taxation. What I object to is taxation for the purpose of meeting unnecessary expenditure and not necessary expenditure of the Government.

Even as regards taxation, the proposals of the Government of India as at first made were wholly inappropriate. All classes of the community were against the proposals and in this connection I must draw pointed attention to the opinion of the Madras European Association which while expressing themselves against the new taxation proposals were wholeheartedly in favour of a drastic cut in expenditure, especially military expenditure. There was a good deal of force in their argument that out of the expected deficit only one-third was sought to be met by retrenchment while two-thirds was sought to be met by new taxation. They also pointed out that although several subjects had been transferred to responsible Ministers in the provinces, the expenditure of the Central Government in respect of those subjects had actually increased since the Reforms.

I have got now to protest against the increased postal rates or the lowering of the minimum of the taxable limit for income-tax. But I am strongly against the surcharge on the income-tax and the super-tax. It is little realised that the causes that led to these proposals for increased taxation are exactly the causes that have affected the persons on whom the incidence of such taxation would fall. They have been hard hit by this trade depression and while that is so, they have been very little benefited by the reduction in the prices of commodities. If you take the budget of a person drawing an income of Rs. 1,500 you will find that his expenditure upon pure articles of foodstuff is comparatively little and that his saving on account of the lowering of the prices of foodstuffs is practically nothing. At the same time his income has gone down and you now propose to increase his taxes. I would put in a plea for the abolition of the surcharge upon the income-tax and the super-tax. I am not also very much in favour of new import duties. The result of these duties in the long run would be to depress trade, and all our efforts must now be made for the purpose of expanding and stimulating trade and not to still further depress the same.

In this connection, may I raise my protest against the policy of sending out a large number of Government servants on the plea of retrenchment and thereby swelling the army of unemployed. I have no objection to persons who have put in a particular number of years of service, say 25 years' service or 20 years' service, being compulsorily retired on payment of a pension but to send out men in permanent or in temporary employment to drift for themselves in these days of universal depression, is not only to add to the amount of discontent which already exists in the country, but also to diminish the purchasing power of the community. There is no possibility of these men getting employed in any department of life outside Government service. The result of their discharge will be that the prices of articles would go down still further and there will be still greater depression in trade, and the Government of India will be faced with a more serious problem next year. I would, therefore, suggest that while the efforts at retrenchment should take the form of reduction for existing men of salaries and the lowering of the rates of pay for new entrants and retiring for the purposes of facilitating the employment of new entrants on lower scales the officers who have put in long service, I am against the abolition of posts and sending out young and middle-aged men from

[Diwan Bahadur G. Narayanaswami Chetti.]

Government service. It acts as a serious slur upon the stability of Government service and also causes great sufferings to the individual officers who are thrown out of service.

While these are my views generally upon the financial proposals of the Government, I fully realise the gravity of the situation and will not embarrass the Government by voting against them. I would wish them good-luck and hope that better times would enable the Honourable the Finance Member to come forward at no distant date with fresh proposals which will take us back to the good old times.

With these few remarks, I support the motion.

THE HONOURABLE MR. SATYENDRA CHANDRA GHOSH MAULIK (West Bengal: Non-Muhammadan): Sir, it is very unfortunate and, at the same time, a matter of great importance to us, Members on this side of the House, that we are again confronted with a certified Finance Bill. The other House has failed to pass it and we, like good boys, should swallow the sugar-coated quinine pill so wisely administered with motherly care by the Government, so that the Budget may be balanced. Come what may, the Budget must be balanced. Between the announcement of the emergency budget proposals and our discussion thereon to-day much water has flowed under the Jumna bridge. We have had an opportunity to observe and scrutinise the effect of the new proposals on the country's trade, finance and industry during the interval of two months. It has been altogether an interesting period for study, especially as the several markets have been exposed to two important and far-reaching influences, namely, the depreciated rupee and the enhanced customs duties. In fact, it is not possible to understand the present budget unless the point of view taken is that of the combined effect of the lower rupee and the higher customs.

Sir George Schuster, at the very outset, said in his speech that the plans he submitted to the Central Legislature had to be made under somewhat unusual and difficult circumstances, and that the difficulties were, in large part, due to the change which had come upon our currency position as the result of the divorce of the rupee from gold and its linking only to sterling. May I submit that far from any arduous problem arising from the change in our currency position, this has been a factor which has already resulted in such favourable developments in the Indian monetary and trade situation that one might as well ask whether it was after all necessary to base the budget estimates for the next 18 months on so gloomy a basis as the Finance Member has assumed? I am quite prepared to concede that at the time when the Finance Member made his calculations, formed his ideas and adumbrated his plans, there was certainly ample justification for taking an extremely pessimistic view of future developments. So far as India is concerned, it is gratifying to be able to record that pessimism has tended to melt into thin air, and there is to-day some mild optimism. There is certainly a new confidence in business and financial circles, and I shall, therefore, try to study the budget proposals from this new standpoint. Is the Budget, as it is now presented to us, calculated to transform this bud of optimism into a full-blown flower? If these proposals are put into effect, will this new confidence grow more and more?

Let me at once express my firm conviction that the Finance Member can only propose budgets, but it is the developments in the Indian trading and financial world which have the final disposal of the Budget. It is in Sir George Schuster's own interest to see that the developments in this regard are of a favourable character, so that his revenue realizations should not prove under-estimates, as has been the case in reference to the last two budgets, but a definite over-estimate. Brisker trade, larger margins of profit, increased purchasing power of primary producers, less worries in regard to Government's borrowings, less complications in regard to their sundry operations in the money market—these are the factors which should have a definite and marked effect not only on the ways and means position of Government but on current revenue and expenditure. Most of our troubles in the past five years have been due to operations connected with the discharge of the statutory obligation as regards the ratio. The period, in which these obligations had to be discharged, was marked by a decline in the favourable trade balances and by a heavy flight of capital from India; that is, exchange was let down badly by those influences which, normally speaking, should have lent support to the rupee. When this natural prop was thus withdrawn, it became necessary to bolster up exchange on the artificial prop of monetary stringency. Thus did the Government become wedded to a policy of tight money, not because there was any demand for money, but because they were driven to it by their obligation to maintain the ratio.

Tight money, as an official policy, meant a higher bank rate, colossal contractions of currency, draining of market funds by frantic borrowings on Treasury Bills at fantastic rates and the various other measures which, whether or not they had the desired effect of supporting exchange, have certainly had adverse effects on various other markets.

Dear money spelt disaster to gilt-edged securities. Prices in this section tumbled down so consistently and persistently for the last four years that investors found their capital cut into very seriously; insurance companies had to utilise a goodly part of their profits as provision for depreciation on their gilt-edged portfolio; the investing public lost all faith altogether in Government securities; and the Government were obliged to go on increasing their borrowing rate from year to year, so that this, in its turn, accelerated the decline in security values. Here was a case of a vicious circle of the gravest description. Government were, at least on two occasions, on the verge of a crisis in regard to their ways and means adjustments. Mr. Gandhi saved them on the first occasion by concluding the pact with Lord Irwin and thereby inducing the flow of funds from London for investment in short term Bills. On the second occasion, the devaluated rupee came as a ready friend; and the Government were able to tide over the crisis by expansion of currency, which was made possible by the lower gold value of the rupee.

Turning to the trade and industry section, monetary stringency was responsible for increased charges to the business community, with the result that profits were less, holding power was reduced and prices of all commodities were pushed down to low depths. Here also, the depreciated rupee has played an important part in causing some revival. The very fact that, on parity, rupee prices are now cheaper than gold prices has been responsible for a considerable appreciation in the former. The more liberal supply of currency as the result of the new policy to expand currency against *ad hoc* securities has also contributed its share to the improvement

[Mr. Satyendra Chandra Ghosh Maulik.]

in prices. In this description I have given I have shown how linking with 1s. 6d. gold caused a set-back in all the markets and how the abandonment of the link has brought about a considerable betterment in the situation. There are good reasons to believe that in the 18 months covered by this Budget, these favourable developments are likely to take a more definite shape and to receive greater momentum.

The effects of a lower rupee are the retarding of imports, a stimulus to exports, the emergence of a larger trade balance, protection of domestic industries, more favourable conditions in the money markets, less anxiety as regards exchange obligations and, generally, more freedom from those annoying influences to which money and trade markets were exposed owing to the deflationary operations connected with 1s. 6d. gold. These favourable factors have been further emphasised by the Ordinance to regulate remittances as the most important effect of this measure was to arrest the flight of capital. Even greater emphasis of these tendencies has been furnished by the Budget proposals now under discussion. Enhanced customs duties should certainly result in considerable diminution in imports and thus increase the chances of a more and more satisfactory trade balance in our favour. Domestic industries, under the two-fold protective influences of devaluation and higher tariff walls, should do better; and this should mean increased internal trade, larger realisation of income-tax and larger railway earnings. Confining myself to the particular aspects of devaluation and the new taxation proposals, I may, therefore, say that the gloomy picture which Sir George Schuster placed before us at the end of September may be proved by subsequent events to have been an unduly exaggerated emphasis on the dark side of things.

From the point of view of the Finance Member, it is quite possible that it was necessary to paint the picture in such lurid light; otherwise, the Legislature could not agree to so heavy a scale of taxation. It may also be that while the proposals certainly have beneficent effects on the country's trade and industry, they are, at the same time, apt to bring the Law of Diminishing Returns into operation and that, therefore, provision had to be made for this factor. We, on this side, are prepared to appreciate this point of view of Sir George Schuster. We believe that in regard to a very bad bargain, he has made the best of it.

It is, however, impossible to take an indulgent view of the way in which the Government have trampled under foot all the proposals of the Opposition in the Assembly. While I am prepared to agree with most of the new taxes; while I am not, on the other hand, prepared to agree to all the cuts proposed and carried in the Assembly, I should say with all the emphasis that I can command that the adamant attitude of the Government, "Not a rupee less, every tax must remain", is an affront to the country and reveals the utter unreasonableness of the authorities. Could not Government have yielded on one or two points and thus demonstrated that the voice of the people has been heard?

I would state my position simply in this matter. You say that the financial situation is grave; I agree. You say that in such an emergency, the country, as a whole, should demonstrate its readiness to undergo sacrifices; I agree. You say that tax-payers are to have further burdens put upon their backs; I agree. And you say, finally, that the higher paid officials cannot carry any more burden than the 10 per cent. cut, modified

and smoothened by the exemption in regard to income-tax. It is there that I cannot agree. You say that the military Budget cannot be further reduced. Here again I must emphatically disagree.

Indian finance, which has, as usual, offered the most penetrating and withal the fairest study of the Budget, pointed out that on February 28, 1930, Sir George Schuster, maintained that there was no room for any substantial retrenchment; and yet Sir George Schuster claims great credit for the work of the Retrenchment Committees. How is this statement of February, 1930, to be reconciled with the proud boast of November 1931? This, at any rate, should be a warning to the Finance Member that dogmatism of this kind should be avoided. I say, you should cut the salaries of the higher ranks; I say, you will have to reduce military expenditure. You may dogmatise to-day on these matters, but I venture to forecast that you yourself will come before the House in February and say that measures in these two directions are essential for the stability of Indian finance and the balancing of the Indian Budget.

THE HONOURABLE RAI BAHADUR LALA JAGDISH PRASAD (United Provinces Northern: Non-Muhammadan): Sir, at the outset, I must give expression to my sense of deep regret at the fact that the Government of India did not see their way to accept the verdict of the Lower House in modifying, as it had done, certain taxation proposals contained in the Finance Bill, but again brought the Bill before that House the other day with the recommendation of His Excellency the Viceroy and Governor General that the Bill be passed in the same form in which it had been originally introduced, with the result that the Legislative Assembly thought it proper to reject the Bill. The Bill seeks to provide for an estimated surplus of 5 crores and 23 lakhs at the end of the next financial year and the amount of new taxation reduced by the Assembly came to about 4 crores only. Thus the Assembly's vote would still have resulted in an estimated surplus of about a crore. On the other hand, Honourable Members of that House did not stop at mere curtailment of taxation proposed by the Government but a number of them also suggested alternative proposals of taxation on the one hand and further retrenchment in expenditure on the other for balancing the Budget. But it is a pity that these suggestions did not find favour with the Government. Of course I appreciate the action of His Excellency the Viceroy in having taken into his confidence the leaders of the Opposition parties in the Assembly before sending the Bill back to the House for reconsideration. But the action of the Government in trying to force their taxation proposals down the throat of the popular House by asking it to pass the Bill in the original form against the declared wishes of the House and their latest action in placing before this House for passage the Bill as certified by the Governor General cannot but be strongly disapproved. And if the rumour which has been referred to by my Honourable friend, Rai Bahadur Lala Ram Saran Das, that there was the hand of the Secretary of State for India behind the action of His Excellency the Viceroy in this matter be correct, then there is all the more reason for such a protest from this side of the House. After all, Sir, the Legislatures exist to frame measures in the light of popular opinion and if the Government wish that these bodies should, so to say, only register the decrees of the Executive I fail to see the utility of these bodies and of spending a huge amount of tax-payers' money over them. By acting in the way the Government have done on this occasion I am afraid they have only given one more proof of the view generally entertained that the Government are still irresponsive to public

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opinion and wish to rule the country despotically. Moreover, such actions on the part of Government tend to breed in the minds of the representatives of the public a sense of irresponsibility because they feel that after all the Government is not going to abide by their vote and must have its own way. This, Sir, is an unhealthy state of affairs and is bound to cause popular dissatisfaction, and rightly so.

Now, I come to the merits of this Bill. It is an admitted fact that India is the poorest country in the world and yet it is very heavily taxed. And now at a time when the country is plunged in the deepest depths of depression, when the future has been rendered still more uncertain by the sudden change in the exchange policy and when it is more evident than ever that it cannot bear additional burdens of taxation, the Government has come forward with proposals of further heavy taxation amounting to several crores of rupees, with a view to meet a part of the gaping deficit in the current and next year's Budget. The year 1930-31 closed with an estimated deficit of over 12½ crores. The estimates for 1931-32 showed that there would be a deficit of several crores. This gap was filled up with the aid of certain retrenchments in expenditure and increased taxes which were expected to yield over Rs. 14 crores. But the anticipations of the Government have been disastrously falsified and it is now expected that the deficit for the current year will be about 19½ crores, and during the next 18 months over 39 crores. So more crushing and sweeping taxation is proposed when only half the year is out. Sir, my fear is that the Budget may be balanced on paper, but by the time the next annual budget estimates are prepared it is likely to be found that the position has further deteriorated in spite of the new imposts, a number of which are extremely objectionable. Such is the abject poverty of the masses that the Provincial Governments are finding it extremely difficult to realise their land revenue and some of them have decided upon large remissions of rent and revenue. The unparalleled economic depression, which has now lasted over a year and a half and gives no indication of disappearing in the near future, has left prostrate the agriculturists, the zamindars and the business men. The Government itself has been finding great difficulty in raising the money it badly needs in spite of the most tempting rates of interest it has been offering. It is at such an inopportune time that the Government is seeking to further increase the burden of taxation. If the Government thinks that it will achieve financial salvation principally by piling up taxes it is to my mind living in a fool's paradise. Their failure in the past to produce more revenue ought to have conveyed a lesson and a warning, but it has not.

Sir, in my opinion, the further increase in customs duty will have the effect of diminishing imports. Owing to the linking of the rupee to a depreciated sterling whose exchange value has been violently fluctuating, the prices of articles imported from non-British countries will become prohibitive and if imports decline exports too are bound to decline. Not only is the increased import duty not likely to bring in the estimated return, but the further decline in exports is sure to have the effect of accentuating the internal depression. No doubt the Government may reap a harvest for about three months from the arrival of goods already ordered, but the uncertainty of foreign exchange and increased customs duty will operate as a deterrent factor in the placing of further orders abroad. This should in course of time stimulate Indian industries, I admit, but I fail to see how it will benefit the coffers of Government or those who have

been flourishing on the import trade. And if the volume of export and import trade declines, as I apprehend it will, railway traffic will also be seriously affected. The import duty of 10 per cent. on machinery will affect the import of textile machines and will thus retard the industrial progress of the country which is a desideratum in India and will ultimately affect the agricultural development also. The surcharge of one-quarter of the existing rate of excise duty on salt will affect the poorest of the poor, and particularly after the mighty protest of Mahatma Gandhi is likely to arouse a strong opposition and protest. The reduction of the exemption limit of income-tax and the surcharge on the existing income-tax will be keenly felt by those affected by it. The burden of income-tax has become almost intolerable and the further levy will be oppressive. As regards the postal rates the popular representatives have been pressing the Government to reduce them, but instead they are being increased. This increase will affect millions of people and at a time when money has become scarce is absolutely indefensible. Sir, by criticising these taxation proposals, I do not lose sight of the fact that the Budget of the Government must be balanced. Balance it by all means, but what I think is that it should be balanced mostly by retrenchment, and partly alone by such taxation as may not operate harshly on the people. For, so far as taxation is concerned, I maintain that it long ago reached the limit when the law of diminishing returns began to operate.

Now let me come to the retrenchment proposals. As regards the retrenchment in the salaries of Government servants, the cut proposed in the case of the highly paid officers is grossly inadequate. Of course, I acknowledge the noble example set by His Excellency the Viceroy in voluntarily surrendering 20 per cent. of his salary but I wonder why his noble example has not been followed to the same extent by the Executive Councillors and the Imperial Services. It is extremely unfair that, instead of a graded cut, there will be a uniform cut in the salaries of the highly paid as well as the lowly paid services of the Government. The bloated salaries of the superior services ought to be substantially reduced. Look at the state of things in Britain, where there was a much bigger deficit, but it was made up mostly by retrenchment and only partly by additional taxation. Not only has His Majesty the King voluntarily agreed to cut down his Civil List but the largest percentage of cuts is to be made in the salaries of those who are getting £5,000 or more. I do not think that such a crisis had ever arisen before requiring the cutting down of Ministers' salaries which, considering the standard and cost of living in Britain, are very moderate and in some cases inadequate. For example, to the best of my knowledge, the Prime Minister draws such a moderate salary that he is reported to be finding it difficult to make both ends meet, and I understand that there was a proposal only recently that his salary ought to be increased. What is being done in England has a lesson for the Government of India, for the financial position of the Government in this country, is in my view hardly less unsatisfactory than that of the British Government, and a number of our highly paid officers get much more by way of salaries, allowances, etc., than the British Prime Minister. In the United Kingdom there has been a graded cut in salaries and the income-tax incidence was not included there as here. My Honourable friend Lala Ram Saran Das has already related to the House how a graded cut has been applied to the salaries in England and I need not traverse the same ground again. In India, however, a cut of 10 per cent. only—a uniform and not a graded cut, mind you,—is proposed in the salaries of services here and that too inclusive of the proposed enhancement of income-tax.

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This would virtually mean that those who are low paid will have a higher percentage of cut while those drawing fat salaries will escape with a smaller percentage of cut, or in other words, the more highly paid an officer, the less will be the percentage of cut in his salary. I ask, Is this just? Is this fair? Is this equitable? Why this differentiation, I ask? Why cannot your all-India Services who are handsomely paid, allow even this small cut of 10 per cent. without any deduction? Sir, so far as my information goes, in no other country in the world where a cut is applied is the income-tax or surcharge included. Apart from this, not even the costly Lee concessions are to be withdrawn which cost the country no less than about Rs. 1½ crores in 1930-31 alone. Then I consider the reduction of 4½ crores in the military expenditure as utterly inadequate. Is not the cost of the military services 87 per cent. greater now than what it was in 1913-14? As has been pressed elsewhere, this expenditure should be reduced by at least 10 crores. Why should not the Army be reduced? Why should not the pace of Indianisation be accelerated? I believe that the expenditure in Britain on defence has been brought down to the pre-war level. Is there any reason why the same should not be done in India? I am sure this will not in the least affect the security of the country or the efficiency of the Army. It will, on the other hand, obviate the necessity of further taxation. If after effecting all possible retrenchments in expenditure as suggested by the representatives of public opinion the Government still finds a gap to fill up, then I would advise it to explore the avenues of fresh taxation suggested by several non-official Members on the floor of the Legislative Assembly as well as of this House.

In conclusion, I appeal to the Government to pause and think before it is too late. Although the Finance Secretary has declared this morning that this being a certified Bill he will not be able to accept any amendments, I believe that it is yet time for the Government to come to a compromise with non-official opinion on some of the taxation proposals embodied in this Bill. Otherwise, Sir, all the discussion on the floor of this House will be futile. Pray, do not rule the country in a mechanical way as if the Government machine must move regardless of whether the people thrive or are ground down under its pressure. Let there be more of human touch about you, like the Government in England, when you are dealing with the masses sunk in penury.

THE HONOURABLE KUMAR NRIPENDRA NARAYAN SINHA (West Bengal: Non-Muhammadan): Sir, I beg to oppose this Bill. In my opposition to this Bill I am supported not only by the entire Indian public opinion but also by that of certain European organisations in this country. All taxation proposals are under normal conditions unpopular. It is no wonder, therefore, that during such abnormal times fresh additional taxes on all imported articles and a further increase of the inland postage rates will cause a great popular outburst.

While I fully appreciate the present financial troubles of the Government, I do not feel sure that they have already done everything possible to mitigate them. They have practically failed to get through their business, in the matter with that broad outlook and far-seeing imagination that were so very imperative in solving such an unusual situation. Although the various retrenchment proposals recommended by the different committees do not themselves to my mind go far enough, yet even

such self-hearted recommendations do not seem to have been wholeheartedly adopted by the Government. A flat rate of 10 per cent. cut all round from top to bottom is not the fairest and best in the public interest as declared by the Honourable the Finance Member, although it might have been a simple plan. Notwithstanding what the Honourable the Finance Member has declared in his statement the proposed reduction in the unusually high military expenditure is considered quite disappointing. The retrenchment proposals for the civil administration do not satisfy the public either leaving yet an ample scope for further axing.

I may tell the House here that the Linlithgow Commission that investigated into the taxable capacity of the Indian people affirmed so many years back that the utmost limit had been reached so far as taxation of the people was concerned. Year in and year out Indian publicists as well as right-minded Britishers have warned against such an unwise and imprudent financial policy of the Government both in the Press and on the platform but the only reward that they have got for their such timely warnings has been more and more disfavour from the Government.

Sir, the proposal of import duties on machinery is against all the maxims of sound finance and healthy commercial policy. At such a time of acute industrial depression any duty on machinery from abroad will only increase the difficulties of the industrialists and handicap the expansion of industries. Further, Sir, the Indian Industrial Commission have recommended that the import of machinery from abroad should be wholly unrestricted.

Sir, the additional duty on salt will only aggravate the misery of the poorer classes, who are at the present moment virtually on the brink of literal starvation and threatening extinction. The proposal for the increase of the already enhanced inland postage rates on postcards and letters is not only an unsound proposition from the point of view of economics, as the proceeds are sure to be quite unproductive, but also morally unjust, as the Government themselves are the monopolists for the production and sale of those articles. I cannot conclude this point without observing here why the question of increase of the rates on foreign postage and telegrams has not been considered in this connection, because that was to my mind a productive source of revenue.

Sir, let me say in conclusion that I quite realise Government are undoubtedly in a sad plight because of a huge deficit and need additional revenue to make it up with a view to carry on normal administration. There are two ways by which they can secure such a revenue. namely, by retrenchment of the present expenditure and by taxation. As regards retrenchment the Government should effect most stern economies by reduction of pay, emoluments and allowances all round from top to bottom based on a graduated scale and natural considerations so as to revert them to the pre-war level. They should also inexorably reduce their bloated expenditure on the military administration, which swallows up more than half the revenues of the country and without an appreciable reduction of which there will never come about a true solution of India's financial deficits. As regards taxation which implies sacrifice on the part of the people, the people should not grudge to shoulder the responsibility in consideration of the present acute conditions of the country's finance, provided the incidence of taxation is not heavy, unnatural and unreasonable and the people are capable of bearing the burden; and the Government on

[Kumar Nripendra Narayan Sinha.]

their part make the people realise that they are also anxious to share their burden by stinting on the part of their officers and starving some of their departments.

THE HONOURABLE MR. MAHMOOD SUHRAWARDY (West Bengal; Muhammadan): Sir, at the outset I must congratulate the Honourable Sir George Schuster on his sincere attempt at retrenchments and the cuts that he has effected, however much they have fallen short of our expectations. But at the same time I must admit that his proposed taxation is considered in this country as hasty and ill-considered, and I would like to offer a few criticisms thereon from the point of view of a popular representative of a large constituency in Bengal. Sir, the Honourable the Finance Member, while making a statement on the financial position of the Government, in September last, sounded a warning against an inflationary budgetary position resulting from a failure to balance current expenditure with revenue and insisted upon taking immediate steps to ensure a clear and solid foundation for our internal position. This is no doubt a very good policy to adopt. But let us see how the Honourable Member has acted up to his own preaching. The total deficit of the current year is expected to be 19.55 crores and a deficit of 19½ crores next year. To meet this huge deficit, he proposes a total of 90 lakhs by cuts and retrenchment during the current year and 8.90 lakhs next year, i.e., 9.80 lakhs in all in two years, and raises 24.31 lakhs by new taxes. When we remember that there was an additional taxation of about 20 crores in the last three years and 40 crores in the last ten years, this additional taxation of over 24 crores to meet the deficits completely, overthrows the theory of the Honourable the Finance Member so eloquently propounded to set his home right. The people are already heavily taxed, more heavily than they can bear—and there is widespread discontent in the land. And when the Congress delegates return from the Round Table Conference without their moon, this additional taxation would be a strong weapon in the hands of the Congressites to create a more distressing and critical situation. Retrenchment should be the watchword and not taxation. The Honourable Member has launched a taxing campaign without waiting for the full report of the General Purposes Retrenchment Advisory Committee and without accepting their interim recommendations. This Committee had recommended a cut of 1.31 lakhs in the first interim report, but the Government has accepted only a saving 1.01 lakhs. Another 30 lakhs cut would have proved the Government's solicitude for the starving millions of India, whom the Government say they have been so long representing. The top-heaviness of the administration has been the greatest clog in the wheel of Indian administration in which the Honourable the Finance Member and his worthy lieutenants are but the bewildering spokes. He has shown great courage but little foresight in bringing this Bill. Had he shown a little less courage and a little more solicitude for the terrible sufferings of the dumb millions, they would have acclaimed and hailed him as their saviour. But, Sir, the Honourable Sir George Schuster seems not to be paid for paying heed to the popular demand but appears to be paid by the Government of India to play the fiddle while Rome burns.

The so-called uniform cut of 10 per cent. in the pay of officers and establishment with more than Rs. 40 pay, is a misnomer, when the surcharge of income-tax is also included in it. He asks the country to accept

an uniform cut in salary as the plainest and necessarily the best. I accept it and I challenge him that the country will accept it provided you recommend an uniform cut in salary without mixing up the question of surcharge of income-tax in it. Sir, the surcharge on income-tax is to be paid by all irrespective of the fact whether he is a Government servant or a non-Government servant. The cry of the country is that the officials in India are paid more than any other country in the world. As such the cut in salary should in no case be mixed up with surcharge. I once more challenge the Finance Member to accept a flat rate of 10 per cent. exclusive of surcharge on income-tax. Sir, the civil estimates come to about 9 crores in round figures and a flat rate of 10 per cent. would give the Government 90 lakhs instead of the Rs. 35 lakhs that they are expecting.

4 P.M. Why should Government show sympathy for the higher paid officials against the lower paid subordinates. In effect, the proposed flat rate has worked out in a graduated scale—in the reverse order. Are the officers and establishments getting a uniform pay? Certainly not. Why then should there be a uniform cut? The lower paid officers who know not what luxury is, who know not how to meet even the bare necessities of life, who find not money enough to give proper education, not to speak of higher education, to their children, who borrow money at usurious rates of interest to marry their daughters, who have no money to render proper medical aid in times of illness—these lowly paid officers are the worst sufferers under this cut. These cuts and retrenchments do not even touch the various costly concessions that are being enjoyed by the most highly paid officers under the Lee Loot, as it is called by my countrymen. If the Government want to introduce a principle of uniformity, as has been so bluntly advocated by my Honourable friend, the Finance Member opposite, why then this invidious distinction? Why then are their costly allowances not touched? Sir, it is a most iniquitous principle which the Honourable Member has propounded. The lowly paid officers are making such greater sacrifices under the Honourable Member's pet theory of nominal uniformity, but which in essence is a graduated scale in the reverse order; *i.e.*, the higher the pay the lower the cut in the salary, as the higher paid officials will have to pay a higher amount by way of surcharge on income-tax. Here, Sir, I request the Honourable Members of this House to remember that though the Finance Member has repeated times without number that the Lee concessions are part and parcel of the pay of the Services, the 10 per cent. cut proposed does not affect these concessions. Why are not officers drawing huge pensions outside India made to surrender 10 per cent. of their pensions while poor clerks on Rs. 40 are made to suffer cuts in their salary?

Sir, from the first interim report of the Retrenchment Committee we find to our utmost surprise that the allowances and honoraria of the Survey of India Department alone amount to 7.16 lakhs, to 1.48 lakhs in the Geological Survey, to 7.05 lakhs in contingencies, supplies and services, and to 4.98 lakhs in the Mint Department. May I ask if it is fair and just to sacrifice low paid men while these luxuries are allowed by the Government. Sir, a grave charge appears to have been made by the Committee against the Government for not supplying the necessary information regarding "number of permanent and temporary staff", "pay proper", "special pay or duty allowances", "compensatory or local allowances", "house rent", "travelling allowances" and "total of pay and allowances" *vide* para. (17) at page 8 of their interim report. This non-supply of adequate information raises a strong suspicion in the minds of

[Mr. Mahmood Suhrawardy.]

the tax-payers, who are after all the real pay masters. Like the greatest of all English dramatists, Shakespeare, we may say, "There are more things in earth and heaven than are dreamt of" in the philosophy of uniformity in cuts. Officers that can be touched by the India Government must be made to forego all such superfluous amenities and as for others beyond their reach, the Honourable Members must take a firm attitude and recommend to the Secretary of State for India their withdrawal. The Honourable Member said that there was depression all the world over. Does it not follow that such world crisis demands the maximum sacrifice from one and all?

I now come to income-tax. The interim report shows a huge increase in expenditure as compared with that of 1913-14. While the estimated income of this year is 6 times the income of 1913-14, the expenditure has gone up by 16.6 times the expenditure of 1913-14. The percentage of expenditure to revenue in 1913-14 was 1.7, while this year it is 4.4. This is extravagance with a vengeance! Before my Honourable friend, the Finance Member, comes up to this Council with proposals of taxation, we want to see maximum retrenchment in this Department. The *bona fides* of the Government must be proved by abolishing the unnecessary posts as recommended by the Retrenchment Committee at page 12 of their report. Extraordinary scales of pay which are outside the regular scales must be abolished.

THE HONOURABLE THE PRESIDENT: The Council is not hearing anything of the Honourable Member's speech except the first few words of each sentence. He drops his voice at the end of the sentence, so that nothing whatever is audible.

THE HONOURABLE MR. MAHMOOD SUHRAWARDY: All right Sir, I am trying to speak more audibly. On the other hand, the taxable limit has been reduced to Rs. 1,000. In a poor country like India, it is nothing but criminal negligence in not making the maximum cut and retrenchment in the most highly paid posts. This lowering of the taxable minimum is most unjust, inequitable and unfair to the lowly placed officers. All officers with a salary of less than Rs. 2,000 per annum should be exempted from the tax. If you tax us here, why should you not tax all salaries, allowances, pensions, etc., paid by India to people outside?

The salt tax is one of the most iniquitous and unjust taxes. There is hardly any country where this important commodity of every day life is so taxed. Why then should salt be taxed in this country alone? Sir, I have not words enough to congratulate the Honourable the Finance Member for the thoroughness with which he has exacted equality of sacrifice from all in the land. He has not only made every human being born in India contribute a portion for the maintenance of the State by means of this tax on salt, but he has even made animals useful to and kept by men for their own use pay their quota in this time of crisis. I am only sorry that the originality of conception is not his but has been handed down to him as a legacy.

Sir, it was in 1922 that the price of the postcard was raised by 100 per cent. as a war measure. We had expected it to come down to its pre-war level at the earliest opportunity. But our expectations have been falsified and the war measure has been perpetuated. And now the Honourable the Finance Member comes up to this House to further raise its

value by 50 per cent. This is indeed an injustice perpetrated by a Government which is more selfish than benevolent. I appeal to my Honourable friend on the Treasury Bench to reconsider the case and try to meet the deficit by drastic cuts and retrenchments. I also raise my feeble voice against raising the value of envelopes.

Sir, let me add a word about military expenditure. The figures of this expenditure for the last 20 years are as much interesting as they prove the utter helplessness of the Indian people. In 1910, it was 30.4 crores, in 1915 it was 35 crores, in 1920, when there was no war or any prospect of war in the near future, it rose to 68 crores and in 1924 it came down to 60.3 crores. This year also the figures stand at 60 crores including about 8 crores budgeted under other heads. Even with the proposed retrenchment of 1.5 crores this year and 4.5 crores next year, this expenditure is too high for poor India and at a time when India is absolutely safe for years to come from invasion either by sea or land. Both Indian and European opinion—I specially refer to the Madras Europeans—have strongly protested against this abnormally heavy military expenditure and with all the emphasis at my command I enter my most emphatic protest against it. The cost of the British soldier is now 6 times that of an Indian, although it was 3 times in 1913. The remedy lies in Indianisation so often pressed by the Legislature. The recommendations of the Inchcape Committee to reduce the number of Indian and British troops have been left unheeded by the Government. According to the decisions of the Brussels Conference, this defence is not to exceed 20 per cent. of the total expenditure, but India is credited with the unique position of maintaining an army at 62½ per cent. of Central expenditure. Even so late as the Simon Commission, their economic adviser held that military expenditure was out of all proportion in India. Sir, India with her starving and half-naked millions is smarting under a military expenditure unparalleled in any part of the world. There is yet time to cut it and I appeal to the Government with all the earnestness I can command to make drastic cuts and save money to meet the deficit. The capitation charges are unjustly saddled on India for the good of England and the Empire. Why should it be then borne by India? Despite the much vaunted professions of the League of Nations, despite the disarmament proposals and other international agencies making for world peace, despite the pompous declarations of the Simon Commission, despite the pious recommendations of the Inchcape Committee, the military expenditure stands as high as the Himalayan mountain and our voice has become hoarse with our vehement protests and we stand utterly helpless and at the mercy of the military authorities.

There is plenty of room for very heavy cuts in the Agricultural Research Office, the Railway Board and Tariff Board, as pointed out by the Retrenchment Committee. If the Government does not accept its recommendations, and if the Government passes this Bill before the full report of the Committee is received and discussed on the floor of this House, the heavy additional expenditure for such Committee is unjustified and a mere waste of so much hard-earned money of the rate-payers.

Sir, let me repeat and request the Honourable Mr. McWatters to spare the lowly shrubs and sacrifice the tall trees. According to the law of nature, the storm strikes the tallest trees and leaves the smaller trees untouched. But the Indian Government appears in this financial crisis to be a mightier person able to change the law and strike the lowly shrubs most and leave the tallest trees of the administration unharmed.

[Mr. Mahmood Suhrawardy.]

Before concluding my speech and resuming my seat, may I ask the Finance Member how a private individual meets such an emergency as the present? How do all the European countries who have got unbalanced budgets in an emergency like the present meet the emergency?

With your permission, Sir, I shall quote a short passage from the official report of Parliamentary Debates in the House of Commons dated 8th September, 1931. The Honourable Sir Oswald Mosley in the course of his speech makes the following observations:

"Sir, I was about to observe that many people seem to think that we are the only country in the world faced with the prospect of a Budget deficit. As a matter of fact, ours is the only country in the world which is taking any steps to meet it. Deficits are the fashion nowadays. All the best countries have deficits. America, the strong boy of the world, has an enormous deficit, far bigger than the one confronting us. France, I think, has always a deficit—I find that nearly all countries have big deficits. There is no collapse of their exchanges, no withdrawal of foreign deposits, no efflux of gold because they have deposits. Why? Because their industrial position is strong and the investor has confidence."

Sir, here I want to point out how the inherent soundness of our industrial position and perennial balance of trade in our favour are sought to be jeopardised by the cruel imposition of additional burdens by way of import duty on machinery and heavy surcharge on income-tax. I shall continue the quotation:

"Therefore, the view I have to put before the House is this, that it is far more important to give the world confidence in the industrial future of this country than to try to balance the Budget upon a basis of revenue which will soon prove illusory."

I would commend this view for careful consideration by the Honourable the Finance Member.

Sir, a word more, and I have done. I would even go so far as to suggest even if the fullest economies fail to balance our Budget, resort might be had to a short-term loan instead of imposing fresh burdens on the people at this stage. Sir Oswald Mosley goes on to observe:

"We then should adopt the method of balancing our Budget advocated by Mr. Keynes and other economists—"

here is the authority quoted by the Honourable the Finance Member and others also:

"which is simply to borrow and continue to borrow."

Sir, I request the Honourable the Finance Member to give these remarks his most careful consideration and to save the country from the horrors of heavy additional taxation.

THE HONOURABLE MR. P. H. BROWNE (Bengal Chamber of Commerce): Sir, we have gathered here in this extra Session to give our blessing or the reverse to what, I think, the whole House are agreed is a perfectly poisonous Bill. I do not for a moment say that I or any of us in the position of the Honourable the Finance Member could have done any better. There have been various suggestions put up by the House, but I am afraid they will not be acceptable to the Honourable the Finance Member. I think we are generally agreed that the Budget must be balanced, but this is a bad Bill and we none of us like it.

The position is that Government are like many of us in the street and have allowed their expenditure to exceed their income. There however the resemblance ceases. We are unfortunately unable, like the Government, to command an all-round increase of 25 per cent. on our income much as we should like to. We have to cut down our expenditure on our amusements, our clothes, drinks, and smokes and possibly even the baby's shoes. But we must balance our budget or eventually close up. I am not saying for a moment that Government have not cut down their expenditure to a very considerable extent but the feeling of the House undoubtedly is that far greater retrenchment is possible. I am not prepared to support that view, although the figures of Government expenditure in the last 10 or 15 years do undoubtedly show a serious increase. We have had a number of fairly expensive committees sitting for weeks investigating where retrenchment can be made and they have all put in voluminous reports which I understand are mostly being accepted by the departments concerned: personally I do not think that more retrenchment committees will obtain further saving. But I do appeal most seriously to His Excellency the Commander-in-Chief and the heads of all Departments not to stop where they are. After a big stir up and a big inquiry we are all rather inclined to sit back and say: "Well, that is done, we have made a big cut and there it is." But in Government expenditure just the same as in any big office I think there is always room for some further retrenchment without loss of efficiency, and I do appeal to all Departments not to relax their efforts in this respect.

As regards the taxation in the Bill a number of speakers have stated that they are of opinion that taxation has now got to such a pitch that the resulting income will be gradually reduced. We read letters to the papers on this matter with reference to motor cars, drink and various imports. Income-tax and super-tax are getting higher and higher resulting in a steady reduction of capital available for the extension of business and employment of labour. I am quite certain the Honourable the Finance Member fully appreciates that point but it is most important that at the first possible opportunity some of this taxation should be reduced. We are too highly taxed, the development of business as being handicapped and as my friend over here said unemployment will continually increase. Well, Sir, I regret to say that I have no suggestions to make in lieu of the taxation proposed by the Honourable Member. I strongly support the Honourable Mr. Miller's suggestion that if any of us can put up any fresh proposal by next March or April that Government should give the matter their fullest consideration as if any method of taxation less onerous on the country can be discovered it should certainly have the fullest consideration and if possible be adopted in place of some of the measures of this poisonous Bill which I regret to say I shall have to support.

THE HONOURABLE SARDAR CHARANJIT SINGH (Punjab: Nominated Non-Official): Sir, it is admitted on all hands that this Bill is of an unprecedented character. However, as the needs of Administration require money, I am prepared to vote for it. At the same time I feel it my duty to bring to the notice of the Government that the situation in the country is very serious indeed. At a time when the economic depression is of unparalleled magnitude any measure which is calculated to increase the already heavy burdens of the people is, I am afraid, apt to swell the numbers of the discontented. Our efforts, I submit, should at this juncture be concentrated on devising means to win the sympathies of the people, and with that object in view, which in my humble opinion, outweighs

[Sardar Charanjit Singh.]

every other consideration, I would earnestly request the Government to give early relief to the tax-payer. It is only by increasing the income of the people and the value of their produce that the Exchequer can really be enriched and the contentment and the prosperity of the people achieved.

THE HONOURABLE MR. M. D. DEVADOSS (Nominated Indian Christians): Sir, the Government wants money and wants it badly and the Bill must therefore go through. There are two ways of meeting a deficit in the Budget: (1) by increasing the revenue and (2) by cutting down the expenditure. As regards the first course, let me observe that India has been taxed to the utmost limit. The proverbial camel cannot bear any more burden. Increase of tariffs does not always mean increase of revenue. Undoubtedly heavy tariffs lead to a reduction in the volume of trade and consequent loss of revenue. In this connection I wish to quote a passage from Mr. Pritchard's book on Indian Administration:

"One of the first things Mr. Wilson (first Indian Finance Member) had to do was to correct a grave error into which Lord Canning's Government had fallen just previous to his arrival, from want of acquaintance with, or in consequence of disregarding, the very first principle of political economy. Excessive imposts always result in the repression of trade. How Lord Canning could have fallen into so great a mistake as to raise the tariff upon certain imports from 5 to 20 per cent. at one sweep, it is difficult to understand. The enormous increase had the effect of checking trade to such an extent that the revenue derived from the duty on these articles, instead of rising to four times the amount, fell at once to nearly one-half. Mr. Wilson at once rectified this by reducing the tariff to 10 per cent. from 20."

It is wrong to suppose that by increasing the tariff unduly you can get a proportionate increase in the amount of revenue. Machinery ought not to have been taxed, for according to the Fiscal Commission's report, the raising of revenue by taxing machinery is not a wise course. Income-tax no doubt is a legitimate source of income, but lowering the taxable minimum undoubtedly is not a wise course. The cost of collection from persons whose incomes are between Rs. 1,000 and Rs. 2,000 will nearly swallow up what is collected. It might be said that there was a time when the taxable minimum was Rs. 1,000, but in those days, the revenue authorities, the Tahsildar and the Revenue Divisional Officer, did income-tax work, and there was no separate department for income-tax collection. Now, we have a costly machinery and the income that would be got by employing additional staff would nearly swallow up the income that is expected from lowering the taxable minimum. Then, as regards the postal rates, I am afraid the Government have laid themselves open to the charge of taxing the poor man's correspondence and not the well-to-do man's by not raising foreign postal rates. I would also suggest the desirability of going back to the practice that prevailed some years ago of charging only one anna for letters not weighing more than a tola. When the Government cannot expect much help from new taxation, it should turn its attention to cutting down expenditure. The expenditure on the Army is out of all proportion to the needs of India. It is an admitted fact that it is maintained at its present strength for Imperial purposes. The following extract from the Despatch of the Government of India, quoted by Mr. Sitarama Raju in the Assembly, is pertinent to my contention:

"Millions have been spent on increasing the army in India, on armaments, etc., to provide not against domestic enemies or to prevent the incursion of the warlike peoples of adjoining countries but to maintain the supremacy of British power in the East. The scope of all those great and costly measures is far beyond India's limits,

but the policy which dictates them is an Imperial policy. We claim therefore in the maintenance of British forces in this country a just and even a liberal view should be taken of the charges which should legitimately be made against Indian revenues."

Mr. Buchanan, who was once Under Secretary of State for India, as a member of the Welby Commission says:

"In so far as the military defence of India is concerned, India pays everything and the United Kingdom nothing and yet the maintenance of the military defence of India is one of the greatest Imperial questions. In the military strength of India is the main factor in the strength of our Empire in the East. In virtue of that Great Britain is a great Asiatic power."

If this is so, Sir, it is but fair that the British Exchequer ought to bear a portion of the cost of the Army in India. I think the Indian Government should take courage in both hands and press upon the British Cabinet the justness and equity of its bearing a portion of the expenses which are incurred in maintaining such a huge army as we have in India, and if the British Government will not consent to sharing a portion of the burden, I think it is but right that the Indian Government should reduce the strength of the Army. Sir, before the War, the cost of the Army was 29 crores. By 1922, just before the Incheape Committee held its enquiry, the cost had risen to 68 crores, an increase which was attributed by that Committee to the general rise in prices, the enhanced rate of pay granted to all ranks, improvements in the standard of comfort and amenities of the troops, additions to and improvements in equipment and the adoption of a higher scale of training and the increase in non-effective charges. My submission is, Sir, that considerable reduction could be made under these heads without in any way affecting the efficiency of the Army.

The cuts in the civil expenditure are also not adequate enough considering the present state of things. It is a most unwise policy I think to dismiss a number of low paid clerks and petty officials who have no other means of earning their livelihood. They are likely to swell the ranks of the discontented and I fear they may go about the country accusing the Government of favouring the highly-paid officials and of dismissing the low paid ones. This, I fear Sir, might create a lot of trouble in the country which it would not be easy to allay or prevent.

I would suggest one or two modes of increasing the revenue of the country. The first is, the levying of income-tax on pensions paid out of Indian revenues. It might be said at once that there is a technical or legal difficulty in the way. My suggestion is, let pensions be paid in India and let the pensioners make their own arrangements for drawing them from this country. So far as pensioners resident in England are concerned, they would have no reason to complain for the British Income-tax Act makes provision for the payment of income-tax at the source and whatever is paid is given credit to, and so they will not suffer by our taxing them under the Indian Income-tax Act. No doubt people who, in order to evade the British Income-tax Act, are residing on the Continent or in the Free State of Ireland will be affected. With them we have no sympathy. What we are now doing, paying pensions in England without deducting income-tax, is benefiting the English exchequer at our expense. I think, Sir, that is not a fair way of dealing with the situation. We cannot afford to be charitable when we are actually suffering so much. I would also suggest one or two fresh sources of taxation. Large quantities of manure and oil-seeds and oil cakes are being exported from this country.

[Mr. M. D. Devadoss.]

In the interests of the planters and the raiyats I would suggest the imposition of a tariff on manures and oil cakes. As regards oil-seeds, it might be said that trade might be affected. The countries which import oil-seeds are the Continental countries and a small tariff of 3 or 4 per cent. I think would not in any way affect the trade. Sir, there are other sources which can be tapped and I do not want to weary the House with enumerating them for this is not the occasion for going into them in detail. With these remarks, Sir, though the taxation proposals are very unwelcome, I wish to give my support to the motion.

THE HONOURABLE SIR GEORGE SCHUSTER (Finance Member): Sir, I should like at the outset to say to the House that I am sure they will credit me with honesty when I say that it is with real regret that we come before the House, that I myself am present in the House, in the circumstances which now apply to the present Bill. I am sure Honourable Members realize that if Government had been able to follow the normal procedure and not to have had recourse to measures which were thought necessary in the present case, Government would have very greatly preferred it. But I would ask Honourable Members to appreciate the Government's position in this matter. It is a common phrase that the present Government is irresponsible. That phrase is used in a certain technical sense, but the real fact of the situation is that the Government under the present constitution carries the responsibility and has no means of shifting it upon anybody else. In those circumstances Government are forced to do what they consider to be necessary in the interests of the country. On the present occasion we were entirely frank and honest with the Legislature from the outset. We told them—and I need not go back over the circumstances in which the situation arose—we told them that we were faced with a national emergency which made it absolutely necessary to take drastic and swift action. In forming our plans for that action we framed them in a way which we considered to be the minimum necessary to deal with the situation. The situation is just as serious now as the situation when we formulated our proposals, and if we were now to reduce in any sense the measures that we put forward we should be falling below the minimum which we consider to be necessary. But I may be told that even in a case of that kind the Government ought to do something to meet the wishes of the popular Assembly. I have thought a great deal on that question and it seems to me that if you follow it to the logical conclusion the result is this. It means that the Government, the Finance Member on behalf of the Government, must on an occasion like this always come down to the House in the same spirit as a man who goes down to bargain in the bazaar. If it were to follow out that principle I ought to come forward and ask for something more than I am ready to accept, so that in the last stages of the discussion I may have something to give away in order to please the popular Assembly. Now, Sir, I am sure that no one who seriously thinks over the situation would expect the present Government in its present form to adopt tactics of that kind, and therefore in the present case we were forced to stand on the proposals which we had put forward, for we felt that if we had given away the four crores which had been cut out of the Budget we should have failed to show that determination which it appeared to us the circumstances rendered absolutely necessary. I would like to say one more word on that subject. It is necessary to consider what exactly were the features in our plan which

according to the vote of the Assembly, would have been eliminated. We should have lost the additional taxation on the lower incomes, we should have lost the machinery import duty, we should have lost the increase in the postal rates, and to these three items one must add a fourth, which I think really slipped in more by accident than otherwise that, as regards next year, but not in the current year we should have lost the additional income-tax on incomes below Rs. 10,000 a year.

Now, Sir, we have heard a great deal in this discussion, both in this House and in another place, about the operation of the law of diminishing returns and about the need for broadening the basis of taxation. I have found it a little difficult to follow those arguments. I think Honourable Members who used them will find it a little difficult to apply the arguments that they have used to the conclusions which they seek to draw from them. I fully admit that, so far as the customs import duties are concerned, it is quite possible that at least in the case of certain items the law of diminishing returns may already be in operation. But those are just the items in our Budget which the whole of the Assembly would have been willing to pass; and it is the other items which are unpopular and those are the items to which the law of diminishing returns does not really apply. Now in the case of these four taxes which the Assembly would have cut out they would have cut out three features where we were going to new fields, where we were really tapping new sources of taxation, and however much Honourable Members may dislike them they are taxes which might even in the present times be expected to produce substantial revenue and which are really more reliable sources on which to rely than many of the other features in the whole of our plan. Therefore it would have been particularly difficult to give up just those three measures. I think it is important that this House should realise that position.

Now, I would like to turn to the general course of the debate. I shall try to be as brief as possible because the subject is already a very well worn subject, and even if Honourable Members here have not been present in the discussions in the other House I trust that some at least of them will have read the reports of those discussions. If they would do me the honour to read some of the speeches that I made and some of the statements that were circulated, they would get a very good idea of the whole of Government's case. Now, in the first place it is necessary to realise the situation in which we are placed. My Honourable and gallant friend from the Frontier compared me to a doctor who had wrongly diagnosed the situation. I thought when he used those words I was reminded of the title of a well known play "The Doctor's Dilemma". I think the doctor in the present case was in a very unpleasant dilemma. But, Sir, I cannot agree with my Honourable friend in his statement of the case. He said I had wrongly diagnosed the situation on the occasion of the last Budget, because the remedies I had applied were wholly ineffective. I would put it to him in this way. I, as a doctor, was treating a patient suffering from a serious but not a dangerous disease, and in the course of the application of that treatment the hospital took fire and the whole of it was burnt down. The patient in those circumstances is liable to suffer a serious relapse in his condition and needs perhaps quite a different treatment. That is really a parallel to the present situation. We are not concerned merely with the disease from which India is suffering. We had, it is true, certain troubles, certain readjustments were necessary in our purely Indian financial situation; but in the

[Sir George Schuster.]

midst of dealing with those troubles we have been caught up in this conflagration which has come upon the whole world.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN: Was not this hospital insured, Sir?

THE HONOURABLE SIR GEORGE SCHUSTER: I would tell my Honourable friend that analogies are always dangerous, but however much the hospital might have been insured that fact would be very small comfort to the patient in my analogy, if he were suddenly to find himself carried out into the cold. Sir, if my Honourable friend would study the condition of the world, if he would study the condition particularly of those countries that rely on primary agricultural products for their economic position, he would see that India is by no means the worst off. Let him consider the position of Australia and the measures that have been necessary there; let him consider New Zealand or the South American countries. They are all in a desperate position; and I would go so far as this when Honourable Members ask whether it is likely that our budget estimates now will be realised, I would go so far as to say this, that if there is not any general improvement in world conditions, then we are face to face with something very near the breaking up of modern civilisation. There is no country which can stand the present conditions and if prices do not improve then we shall be involved in still further troubles not of our own making but which would come upon us from the outside world. It is not only the countries that rely on primary agricultural products of course that are in difficulty. One of the latest speakers reminded us that all the best countries had heavy deficits now. I would remind this House that last year France, one of the strongest financial countries in the world at present, had a deficit on their Budget of 1,500 million francs; I would remind the House that the United States had a deficit last year of 903 million dollars and that in the first quarter of the current year they fell below the budget estimate by no less than 374 million dollars. The position of the United Kingdom is well known. Their deficit for the current year is expected to be £70 million sterling and if the real facts of the situation are examined it is much higher, because they have only reduced the deficit to this figure by drawing on certain special funds to keep it down as low as that, and for next year they anticipate a deficit of £170 million sterling. That is the condition of the world and it is no use saying that the Government of India are responsible for the present position of India. None of us who are caught up in this terrible trouble can help it.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: How have those other countries met their deficits, by retrenchment and by extra taxation?

THE HONOURABLE SIR GEORGE SCHUSTER: I am coming to that point later on. I was going to say this, that it has been suggested by certain speakers that although we are in this trouble we ought not to take emergency measures to deal with the situation. It is a point which I think requires a very short treatment from me, because although it was mentioned by one or two, I think it is quite clear that the general feeling of the House would not agree with that attitude. But supposing we did try to take that line, supposing we followed the advice of one of the speakers that we should deal with the situation by raising loans, we should very soon—at the very first attempt—be brought up against the failure of that method, for the very simple reason that we should not be able to raise the loans, and that is one of the facts which Honourable Members who make these suggestions would quickly realise if they themselves

were carrying the responsibility. But that is a point with which I do not intend to deal at any length, because as I have said I take it that both in the Legislative Assembly and in the present Council there is no strong section of opinion which would advocate courses of that kind. Practically all the speakers to-day have agreed that it is necessary to take emergency measures to balance the Budget; and if there is a difference of opinion it is not as regards the object that we should aim at but as regards the methods by which we should achieve that object. Now if I go over what has been said it seems to me that there are a certain number of points which have been made, points where Honourable Members would differ from the line that the Government have taken. Some say that more retrenchment is necessary; others say that different forms of taxation are necessary; one Honourable Member has suggested that we should make a heavier raid on the sinking fund. Then my European friends say that while they agree in general with our policy they think that in details it certainly should be revised. Others again say that whatever we do, in any case the country cannot stand this taxation; and lastly they say that whatever we do, we are not going to raise the necessary revenue. Now, I should like to take those points one by one. I think they cover the whole field which has been covered in the debate to-day. Let me take first of all this question of more retrenchment. Again I will not attempt to deal with it in detail, but I would ask Honourable Members to study carefully the papers which have been circulated to them. But I think it is clear from the remarks that have been made by all the speakers that they have not really appreciated the extent to which the Government has proposed to cut down expenditure. I would ask Honourable Members particularly to study a table which has been circulated with the papers, an analysis of revenue and expenditure of the Central Government starting with the year 1921-22. That really shows the truth, it divides up the budgetary figures in a way which reveals the true position. The budgetary figures considered as a whole are really most misleading when you are considering this question of retrenchment or when you are trying to form a judgment as to what is the field of expenditure to which retrenchment can be applied. Now, looking at that table you will find that I have analysed the administrative expenditure, separated it out from debt services and other headings, and there are two columns which deal with administrative expenditure, the net military expenditure and the net civil expenditure. Now, the expenditure in 1930-31 was on those two heads 77 crores and 59 lakhs and if we can realise our plans that expenditure in 1932-33 will be reduced to 64 crores and 89 lakhs. That is to say, since 1930-31 a reduction of 12 crores and 70 lakhs which means something like 16·4 per cent. of the total expenditure. Now, I do maintain that if we can carry that out it is a very remarkable achievement, and I would like to go a little further back because my Honourable friend Mr. Browne speaking last referred to the enormous growth of expenditure over the last 15 years. Well, the earliest year which I have got in this table is 1921-22 and the expenditure under those two heads in 1921-22 was 89 crores and 83 lakhs. That is to say that the figure 89 crores and 83 lakhs will be reduced next year to 64 crores and 89 lakhs. Now, I think on those figures it is hardly fair to refer to the enormous growth of the expenditure, and if we can cut down to that figure and get any sort of return to normal economic conditions for this country then I say Indian finance will really be down on to a sound foundation and there will be a very good chance for the Government of the future to find some margin for expansion as regards productive

expenditure and a very considerable margin for the reduction of rates of taxation. It is the lowest figure—we have got it down to a figure many crores below the lowest figure since the war.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN: But, Sir, why are you going down to 1921-22? We want you to go to the expenditure of 1913-14.

THE HONOURABLE SIR GEORGE SCHUSTER: I am going to deal with my Honourable friend's remarks on that matter. But as he has invited me now I would like to put it to him. Let him go through the budgets of every country in the world and find any single country which is now within any appreciable distance of pre-war expenditure. They have all had to go up because the cost of administration has gone up in every country and you cannot get it down again. But I would like to carry it further because in the case of India—and my Honourable friend knows this better than anybody else—in the case of India the biggest increase is in connection with the Army, and in regard to the Army my Honourable friend should also know because he has been on the Army Retrenchment Committee, he should also know that if the present Army expenditure can be cut, as we now propose, by another 5½ crores, then he will be down to a figure which leaves no possible margin unless you go in for a substantial reduction of troops. And I say that with great confidence for the following reason. The Army Retrenchment Committee has so far it is true not covered the whole of that field but it has covered a very substantial part of the field. The Army Committee's recommendations provide for savings in that field of something like 274 lakhs—I am not sure whether I have got the figure exactly.

THE HONOURABLE RAI BAHADUR LALA RAM SARAN DAS: About 5 per cent. on the table.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN: Sir, I am not talking only about the Army. I am talking about the civil too. It has gone up to eleven and a half crores, leaving out the Army expenditure which will be looked after by the members of its own Sub-Committee.

THE HONOURABLE SIR GEORGE SCHUSTER: But I would put it to my Honourable friend that as regards the expenditure on the civil, taking all the tax-gathering departments into account, on which you cannot reduce expenditure unless you are going to reduce efficiency of collection, taking all this into account and taking the North-West Frontier Province, where I think my Honourable friend will agree there is not much room for reducing expenditure at present, taking all this into account, the total expenditure on the civil heads is only 18 crores and there cannot be in that small amount, considering all the duties that the Government has to perform, there cannot be a very large margin for further reduction. Therefore if further reduction on a large scale, on a scale which really is going to affect the situation, is going to be brought about, it must be in the Army, and if it is in the Army then if my Honourable friend wishes to see further economies beyond the 5½ crores which are being provided for in next year's Budget it will be impossible to get that—and I am sure my Honourable colleague His Excellency will confirm me in that—it will be absolutely impossible to get that without substantial reduction of troops. (*His Excellency the Commander-in-Chief: "Yes."*) Therefore, if my Honourable and gallant friend is pressing for a return to 1913-14 he is pressing for something which will mean reducing the present strength of the Army by nearly one-half.

5 P.M.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN: I do not mind the Army, Sir. We will settle that. What about the civil expenditure?

THE HONOURABLE THE PRESIDENT: I think the Honourable Member has said that before and I understood the Honourable the Finance Member to answer him. I think the House will be glad if the Honourable Member would refrain from further interruption.

THE HONOURABLE SIR GEORGE SCHUSTER: I shall be very glad to go into the figures in further detail with the Honourable Member outside. But I would repeat the point that, as the total volume of expenditure including a large number of items which cannot possibly be reduced without loss of revenue is 18 crores, if the total amount spent on civil administration to which he is referring including the North-West Frontier Province is only about 12 crores, I put it to him that there cannot be within that field a sufficient margin of economy to make any substantial difference in the present financial position because we are short not of two crores but of twenty crores. That is a point I want to make.

Now, Sir, another comparison that has been made has been between the retrenchment which we are effecting and what has been done by His Majesty's Government. Several speakers in the course of this debate have said that His Majesty's Government, the British Government, have tackled the position better; that they have tackled it by retrenchment whereas the Government of India are tackling it by new taxation. I just want to remind the House of the actual facts in that connection. The British Government had to find 70 millions in the current and 174 millions next year. A total of 244 millions. Towards that they are raising new taxes amounting to 122 million pounds. That is to say by new taxation they are finding 50 per cent. of the necessary money.

THE HONOURABLE MR. ABU ABDULLAH SYED HUSSAIN IMAM: With a surplus, Sir, at the end of the two years.

THE HONOURABLE SIR GEORGE SCHUSTER: Well, the surplus is one and a half million in each case, and it is so small in dealing with a budget of that kind that it really does not come into account at all. They are providing for 50 per cent. by new taxation. We, according to our present estimates, are calculating on the two years to raise about 21 crores to meet a deficit of 39 crores, that is slightly above 50 per cent. so that as regards taxation the figures are almost exactly the same. But when you come to consider the matter of retrenchment the position is quite different. Taking next year, for instance, the British proposals will provide by economy cuts 70 million sterling towards a deficit of 170. But included in that 70 million sterling are very large cuts on items to which we have no parallel at all in this country. They are taking £36,300,000 out of the Unemployment Insurance and Unemployment grants. They are raiding the Road Fund to the extent of £7,860,000. Those items together amount to £44,160,000 out of their total of £70,000,000. Out of genuine retrenchment which is comparable to the sort of retrenchment which we have got to effect they are only finding £26,000,000. Now, their total expenditure eliminating debt services is something like £500,000,000 so that their retrenchment amounts to a little over 5 per cent. of their retrenchable expenditure, whereas in our case, as I have already informed the House, our retrenchment amounts to 16.4 per cent. of our retrenchable expenditure. I think it is clear to any one who studies these figures that as far as retrenchment goes, we have made a much bigger effort than even the British Government.

THE HONOURABLE MR. ABU ABDULLAH SYED HUSSAIN IMAM: Will the Honourable Member give us the figure for the current year, 1931-32, for the British Government and ourselves?

THE HONOURABLE SIR GEORGE SCHUSTER: As my Honourable friend has raised that question, I will just say a word or two. He himself based the whole of his remarks on retrenchment for the current year, but in doing that, he quite failed to take account of the retrenchment which we had effected in the current Budget and he ought to add to the figure of 90 lakhs which he gave a figure, very nearly 4 crores, which we had actually provided in our Budget estimates. If he takes that into account,—I would like him to go home and work out the figures—he will find that the percentage which I have given applies to the combined totals to almost exactly the same extent as when applied to 1932-33 alone.

THE HONOURABLE MR. ABU ABDULLAH SYED HUSSAIN IMAM: This year's revised Budget is bigger than the first Budget.

THE HONOURABLE SIR GEORGE SCHUSTER: I would ask my Honourable friend to go and work out the figures for himself and not to prolong my speech by further interruptions. It has already got longer than the House desires.

Turning to the second method, the different forms of taxation, we have not had any substantial suggestions. My Honourable and gallant friend from the Frontier made a suggestion—which from the purely financial point of view may have much to commend it—that there should be a uniform all-round income-tax of $2\frac{1}{2}$ per cent. on all incomes down to Re. 1 per annum.

THE HONOURABLE MAJOR NAWAB SIR MAHOMED AKBAR KHAN: Rupees 40, I said, Sir.

THE HONOURABLE SIR GEORGE SCHUSTER: If we could collect an income-tax of that kind it would be very effective. But I do not think that my Honourable friend really expected his proposal to be taken very seriously. Apart from that, one of the last speakers mentioned certain suggestions which can be the subject of enquiry, and in this connection, I should like just to say something about the points made by my Honourable friend from Bombay. He wished to get from the Government two assurances, first that in the course of the normal budget discussion an opportunity would be given to review the whole position, and to consider alternative proposals, and secondly that in the meanwhile Government would investigate alternative proposals. I have no difficulty at all in giving him the second assurance, and if he, or those whom he represents, have any proposals that they wish us to consider, we shall certainly go into them very carefully indeed. I do not wish to hold out any hope that we ourselves see the possibility of any substantially new and different forms of taxation which could be introduced on the occasion of the next Budget and substituted for some of the existing taxes, for I cannot myself see any possibilities of taxes which could produce large sums of revenue which it would be possible to introduce at that stage. But we have still two or three months before us and conditions may change, and may make it possible to take up alternative measures. In the meanwhile I would ask my Honourable friend to be content with my assurance on the other point, that if he or his constituents have any suggestions to make, we

shall give them our most careful consideration. In this connection I would remind him of a statement which I made in the other House to the effect that if we find that, in the case of any articles, the increased import duties are operating in such a way as to produce an actual loss of revenue and also to damage Indian economic interests, we would take action, making use of our own executive powers under section 23 of the Sea Customs Act, to make remissions of the duties, and, having done that, we should come before the House next Session and ask them to approve the action which we had taken. That gives a certain amount of elasticity towards making minor changes, and again I say that if my Honourable friend or the interests which he represents have any suggestions under that head to make, I should be very glad to consider them.

I now come to the point made by my Honourable friend Mr. Basu with regard to the Sinking Fund. I always listen to what he says with great care and interest. He generally deals with questions of finance as distinct from mere questions of revenue and expenditure. But in the present case I must say that I find it very difficult to follow what he has in his mind. His argument seems to be this, that unless the provision for reduction and avoidance of debt, or the Sinking Fund, to use a shorter expression, is used for the active support of Government securities in the market it has very little use to anybody. He said that as at present applied, it was functioning neither for the reduction nor for the avoidance of debt. I am sure my Honourable friend did not mean that seriously, because it must be obvious to him that if we have a provision in the Budget—6,78 lakhs—which is not spent in the ordinary way, that must flow into the general Government balances and so ease the Government ways and means position. He must also realise, that, so far as Government's debt position is concerned, it makes no difference whether that money is used for the purchase of securities in the market, thus reducing Government securities outstanding in the market, or whether it is used to avoid fresh borrowing. In the former case Government would have to borrow so much more new money and this would bring the Government debt outstanding up to the same figure as it would have been if the latter course had been adopted. From the point of view of the Government's balance sheet it can make no difference. I think my Honourable friend's remarks do not bear analysis. If, however, he really wishes to press his suggestion that we should meet the present situation by abolishing our Sinking Fund provision altogether, that I am afraid is a suggestion which I must refuse altogether to consider. Nothing could be more calculated to damage the position of the Government of India. I would remind the House, when they are considering that, that at present when we are forced to draw upon the Railway Reserve Fund in order to enable the Railways to meet their ordinary interest obligations, it would be particularly unsound to abolish or to cut away altogether any provision for reduction and avoidance of debt. We think that under our present proposals,—which, if our estimates work out accurately, would mean that the provision for reduction and avoidance of debt is reduced from just under 7 crores to about 4½ crores,—we think that that is not going beyond the limits of what is sound finance in the present circumstances. But to suggest that we should lean on the Sinking Fund for helping us out of the present situation, and avoid all further taxation, would be a suggestion which in the long run would do India an enormous amount of harm.

[Sir George Schuster.]

I have only a few more words to add. I turn to the point which has been made that the country cannot stand the present burden of taxation. Now, I fully admit that the increases in taxation in recent years must have been very unwelcome to all classes in the country, but I trust that this aspect of the situation will not be exaggerated. When you come to analyse the figures of the burden of taxation in India it is not really, compared with other countries, an unduly heavy burden. I quoted in the course of the discussions in the other House the figures given by Sir Walter Layton in his report, and Honourable Members may recollect that he pointed out that, according to the estimates of the Indian national income, the total burden of taxation, at the time when he reported, represented something between 6 and 8 per cent. of the total national income; whereas in Japan the total burden of taxation amounts to 20 per cent. of the total national income. The conditions of the two countries may not be exactly similar, but they are at least comparable, and taking India as a whole, although I admit that the increases recently have been relatively heavy—taking India as a whole it cannot be said that the burden of taxation is of an entirely crushing nature. I would just remind the House also of certain of the figures as regards income-tax. I have not a full table before me, but there was a very interesting table prepared by the Bombay Millowners' Association. They showed what the increases in income-tax had been on the various grades of income as the result of the measures introduced in the last two Finance Bills, and the one case which stood out as the most glaring case of all was the case of an income of Rs. 15,000 per annum, where the actual increases amounted to 100 per cent.—the rate had been doubled. But the rate as it now is, thus increased, is only about 10 per cent. of the income—2 *sh.* in the pound. Well, I do not think it can be said, although that is a substantial deduction, that in comparison with income-tax rates in other countries it is a crushing burden. Therefore, let us preserve a sense of proportion in this matter and not indulge in undue pessimism. And that is the note on which I would like to finish. I agree that the present situation is bad. I agree that the present Bill is a most unpleasant Bill, and I often wish when I listen to these debates that I could change places and make a speech in opposition for a change. The task of the critic is extraordinarily easy in dealing with the present Bill. But realizing and facing up to all the objections, I believe the position of India, if compared with the conditions of other countries in the world to-day, particularly the condition of other countries which rely on primary agricultural products for their economic life—I believe the condition in India to-day is sound and healthy; and further I believe that with all the disadvantages of our new customs import duties, they are going to have a beneficial effect on Indian industry and that Indian industry can look forward to a period of prosperity which industry in no other country of the world to-day can hope to realize. If you follow the progress of the Indian cotton milling industry and compare it with the progress of the cotton milling industry in other countries of the world,—and that after all is a big staple industry—you will find that India alone of all countries is now enjoying comparative prosperity and is the only country in the world which is now working anything like full time in any big standard industry. And it is far and away the most prosperous country in the world so far as the making of manufactured cotton goods is concerned. That, after all, is, as I say, the most important industry in India, and I think it is significant that in spite of everything the opposition from the big

business centres to the present Finance Bill has not been very great. I think it is significant that in spite of everything the general spirit in the country and the feelings as regards the future are better than they were at the time when the Budget was introduced. Therefore, fully recognizing the disadvantages of heavy taxation or increases in taxation, let us not be too pessimistic, and let Honourable Members here feel that in the midst of times of unexampled difficulty India is keeping her place very well and will continue to keep it as long as we manage public finances on a sound basis. (Applause.)

THE HONOURABLE THE PRESIDENT: The question is:

“That the Bill to supplement the Indian Finance Act, 1931, and to extend the operation of its temporary provisions, in the form recommended by the Governor General, be taken into consideration.”

The motion was adopted.

The Council then adjourned till Eleven of the Clock on Friday, the 27th November, 1931.

Copies of the Debates of the Legislative Assembly and of the Council of State are obtainable on sale from the Manager, Central Publication Branch, 3, Government Place, West, Calcutta.
