



India in 1925-26



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By **J. COATMAN**
Director of Public Information
Government of India

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The rupee is worth 1 shilling and six pence gold, its fluctuations being confined between the upper and lower gold points corresponding to that ratio. One lakh (100,000) of rupees is worth £7,500 and one crore (ten millions) is worth £750,000 at the present rate of exchange.

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" I put it to the House that you cannot measure the progress of a policy.....by six-monthly periods. You must give time for that policy to work itself. This reminds me of the time when I was Collector of Malabar many years ago. I was extremely fond of the district, and it was always my fear that my five years as Collector of Malabar would pass without my having done anything of permanent value to the district. I remember, Sir, how I used to spend long hours in writing skilful letters to Government and trying to get money for a bridge here or a bridge there or whatever it might be. But, Sir, progress seemed very slow. But one day, in going through the records of my office, I came upon an old report by Sir Clements Markham. That was in the fifties and some few years later he came on a pious pilgrimage to what he called the cinchona hills in the Malabar Wyanad and Nilgri Wyanad area and he wrote a report. After fifty years I came across that report with a map attached to it, and I looked back on the progress of that part of the district over a period of fifty years. Flourishing townships existing in my time did not exist at all in his time, and I could see that we had built new roads and new bridges everywhere and I could see at a glance all that we had done for the district during that period. And that seems to be the way in which we have got to look. I submit that you have got to take long views on a matter of this kind....."

(Sir Charles Innes' speaking in the Legislative Assembly on the 23rd February, 1926.)

APPENDIX I.

A SLIGHT DESCRIPTION OF THE PRESENT CONSTITUTION OF INDIA AND A BRIEF SKETCH OF THE INDIAN FINANCIAL SYSTEM.

The first and most striking consequence of the new Government of India Act, and of the rules made thereunder, has been to divide the sphere of Government in the Provinces between two authorities, one amenable to the British Parliament and the other to the Indian electorate. This has necessitated a prior classification of the subjects of Government into the two spheres of Central and Provincial. A number of very important administrative subjects, henceforth technically known as "Provincial" subjects, have been entrusted to the reformed Local Governments. These include Local Self-Government; medical administration, public health, and sanitation; education; public works and water supply, with certain reservations; land revenue administration; famine relief; agriculture; fisheries and forests; co-operation; excise; the administration of justice, subject to legislation by the Indian Legislature; registration; industrial development; police; prisons; sources of provincial revenue; and many miscellaneous items. The way has thus been cleared for the division, within the Provinces, of the functions of Government between an authority responsible to Parliament and an authority responsible to the electorate. It is hardly necessary to repeat that under the reformed constitution the Provincial Executives now consist of two portions. The first half is the Governor, working with Executive Councillors nominated by the Crown; the second is the Governor, working with Ministers selected from members of the Provincial Legislature. The first half administers certain subjects known as "Reserved" and is responsible for them to the Central Government and ultimately to Parliament. The second half deals with "Transferred" subjects and is amenable to the Indian electorate. Among the most important of the subjects so transferred to popular control are Local Self-Government; medical administration, and public health; education; public works, under a number of important heads; agriculture; forests and fisheries; co-operation; excise; registration; industrial development; and other minor items. Thus a very large proportion of those administrative subjects on the development of which India's progress depends have now been made over directly to Indian control.

The division of the Provincial Executives into two halves, according to the so-called dyarchic plan, is a constitutional experiment of a hitherto unparalleled kind. With the reasons for its adoption we are not here concerned; it is sufficient to state that in the circumstances amid which India found herself at the time of the Reforms, those in control found it difficult to devise any alternative method of combining stability with progress.

Turning now to the internal aspect of India's finances, we must note that a large proportion of the revenues of the Government of India is derived not from taxation, but from such sources as land revenue, opium, railways, forests and irrigation. The country being still in the main agricultural, Indian revenues are always largely influenced by the character of the season. Up to the time of the Montagu-Chelmsford Reforms, the Budget of the Government of India was made to include the transactions of the Local Governments, the revenues enjoyed by the latter being mainly derived from sources of income shared between themselves and the Government of India. The Central Government out of these incomings was responsible for defence charges, for the upkeep of railways, posts and telegraphs, for the payment of interest on debt, and for the home charges. The provinces from their income met the expenses connected with land revenue and general administration, with forests, police, courts and jails, with education and with medical services. Charges for irrigation and ordinary public works were common both to the Central and to the Provincial Governments.

This state of affairs has passed away as a result of the changes introduced by the Montagu-Chelmsford Reforms. The authors of the Reforms had urged the necessity of complete separation between the finances of the Central Government and those of the various Provincial Governments. Their main recommendations were that no head of revenue should continue to be divided; that land revenue, irrigation, excise and judicial stamps should be completely provincialized; and that income-tax and general stamps should become central heads of revenue. Inasmuch as under this re-arrangement the Government of India would lose heavily, the scheme proposed that contributions should be levied on the provinces to make up the deficit. A Committee was appointed in January 1920 to investigate the financial relations between the new Central and Provincial Governments. The Committee proposed that receipts from general stamps should be credited to the provinces and not to the Central Government, and suggested a plan by which the Provincial Governments were to contribute Rs. 983 lakhs (£9·83 millions) to the Central Government in 1921-22. The standard contribution of each Province was also fixed as proportion of the total contribution necessary to make good the deficit of the Government of India. This proportion was 19 per cent. from Bengal; 18 per cent. from the United Provinces; 17 per cent. from Madras; 13 per cent. from Bombay; 10 per cent. from Bihar and Orissa; 9 per cent. from the Punjab; 6½ per cent. from Burma; 5 per cent. from the Central Provinces; and 2½ per cent. from Assam. The Committee recommended that contributions should be adjusted to this standard percentage by equal increments, contributions extending over a period of 7 years. These recommendations were not accepted in full by the Joint Select Committee of Both Houses of Parliament. It was finally settled that from the year 1922-23, a total contribution of £9·83 millions (Rs. 983 lakhs), or such smaller sum as may be determined by the Governor General in Council, shall be paid by the Local Governments, provision being made for reduction when the Governor General in Council fixes as the total

amount of the contribution a sum smaller than that payable in the preceding year. Unfortunately, at the time of the inception of the Reforms and for some years afterwards the Provincial Governments, in common with the Central Government, underwent severe financial straits. Their expenditure was on the up grade, and the non-co-operation agitation had a baneful effect on some of their items of revenue, such as excise and stamps. It is therefore not astonishing that in most, if not all, provinces, there grew up a strong feeling against the system of Provincial contributions which was an integral feature of the financial arrangements under the reformed constitution. This feeling was most vocal in Bengal and Madras. Though the Central Government could not contemplate with any satisfaction the loss in their revenues entailed by the remission or reduction of any contributions—since their own financial position was itself precarious—yet it was felt that the case of Bengal was peculiar and eventually the Indian Government had to remit the Bengal contribution for a term of years.

Since the first days of the Reforms, however, a revolution has taken place in the state of Indian finances and for the past two years the Indian Government have had surpluses where formerly they had heavy deficits. The Financial Relations Committee laid down a regular programme for the abolition of the Provincial Contributions when the state of India's finances should make this possible. The first two stages of this programme have been carried out and almost half of the total amount of the Provincial Contributions has now been remitted. The prospects seem bright for further remissions of Provincial Contributions and it is to be hoped that their total abolition will be witnessed in the not very distant future.

APPENDIX II.

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APPENDIX III.

RESOLUTION REGARDING THE SUSPENSION OF TRANSFERRED SUBJECTS IN BENGAL.

NOTIFICATION.

PUBLIC.

Dated the 13th June 1925.

No. F.-453-24-1.—In exercise of the powers conferred by rule 6 of the Devolution Rules, the Governor-General in Council, with the previous sanction of the Secretary of State in Council, is pleased to direct that the transfer of all the transferred subjects in the province of Bengal shall be suspended, with effect from the 13th June 1925 to the 21st January 1927.

RESOLUTION.

PUBLIC.

Dated the 13th June 1925.

No. F.-453-24-11.—The decision that the transfer of all transferred subjects in the province of Bengal shall be suspended from the 13th June 1925 until the 21st January 1927 has been announced in the Notification of the Government of India in the Home Department No. F.-453-24-1 (Public), dated the 13th June 1925, and the Governor-General in Council takes this opportunity of stating the reasons which have led the Government of India and the Secretary of State in Council to this decision.

2. The present Bengal Legislative Council met for the first time on the 21st January 1924. On the 24th March 1924 the Council rejected the demand for the salaries of Ministers by 1 vote. A motion, which was equivalent to a vote of censure, had, however, been moved in the same Council on the 20th February 1924 and had been rejected. The Ministers accordingly did not consider the vote of the 24th March as a vote of censure, and they were prepared to continue in office without salary. His Excellency the Governor of Bengal also accepted the view that the decision of the Council on the 24th March did not necessarily represent its considered opinion either in regard to the personnel of the existing Ministry or in regard to the question whether any Ministers should be appointed at all. It was, therefore, decided to re-submit the matter for the reconsideration of the Council at its next meeting and meanwhile the Ministers continued in office. A supplementary demand for the salaries of Ministers was placed before the Council on the 26th August 1924 and was rejected by 68 votes to 66. The Ministers then resigned and

His Excellency the Governor assumed charge of the administration of the transferred subjects under the Transferred Subjects (Temporary Administration) Rules.

3. On the 17th February 1925, the Council by a majority of 75 to 51 votes carried a Resolution recommending that a provision be made for the salary of Ministers in the budget for the year 1925-26. Nawab Bahadur Saiyid Nawab Ali Chaudhuri, Khan Bahadur, and Raja Manmatha Nath Ray Chaudhury were appointed to be Ministers on the 14th March 1925 and at the same time an official announcement was issued to the Press, of which the following is an extract:—

“ In order that there may be no misunderstanding, it is perhaps desirable to explain in advance what view the Government will take of the action of the Council in certain eventualities.

- (1) If the demand for Ministers' salaries is again rejected in toto the Government will regard this as an indication that the Council refuses to provide salaries for any Ministers. In that case His Excellency will apply to the Government of India to retransfer all the transferred subjects under Devolution Rule 6, and if this is done, Bengal would thereafter be governed by a Governor in Council. Any motion to reduce the salaries of Ministers to less than Rs. 3,000 a month will similarly be regarded by Government as a refusal on the part of the Council to provide adequate salaries for any Ministers, and, if carried, will have a similar result.
- (2) If a motion to reduce the amount payable to Ministers by any sum between Rs. 1,000 and Rs. 2,000 per month is carried this will be accepted by Government as the figure at which the Council desires to fix the remuneration of Ministers.
- (3) If a motion to reduce the amount payable to Ministers by a nominal sum between one rupee and Rs. 100 is carried this will be regarded by Government as indicating a vote of censure on the Ministers who will then resign and others will be appointed in their place. The opinion of the Council on their successors can be expressed either by a nominal reduction of Rs. 100 in one of the demands for transferred subjects which has still to be voted or later when a supplementary demand is made in the next session for the nominal sum which has been reduced.”

On the 23rd March 1925, the Council by a majority of 69 to 63 again rejected the demand for the salaries of Ministers, though during the discussion of the motion for the demand the Hon'ble Sir Hugh Stephenson made it clear that the total rejection of the demand would be interpreted as indicating that the Council did not desire to have any Ministers at all. The Ministers then resigned and on the 25th March His Excellency the Governor again resumed charge of the administration of the transferred subjects under the Temporary Administration Rules.

4. The present Bengal Council has therefore on three occasions decided to provide no salaries for Ministers, though the issue was very definitely put before it on the last occasion. It is clear that the administration of transferred subjects by the Governor under the Temporary Administration Rules cannot continue indefinitely, as such an arrangement is neither suitable nor intended as a permanent form of administration. In these circumstances the Government of India and the Secretary of State have no alternative but to accept the thrice expressed desire of the existing Legislative Council that there shall be no transferred subjects in Bengal. For this reason the suspension of transfer has been directed for the life-time of the present Council, *i.e.*, up to the 21st January 1927, which is three years from date upon which the Council first met. Though the transfer has been suspended up to the 21st January 1927, this does not of course mean that the suspension of transfer may not be terminated on an earlier date, should the existing Council indicate its desire to secure reconsideration of the position or should its term of office be brought to a close before that date.

APPENDIX IV.

LORD BIRKENHEAD'S SPEECH ON INDIAN AFFAIRS, DATED 7TH JULY 1925.

The Secretary of State for India (The Earl of Birkenhead): My Lords, my first duty is beyond question to express gratitude for the great patience which both here and in another place has enabled me to hold the important office that I have filled for a period of eight months without making any considerable Parliamentary statement. For this unusual indulgence I am indebted both to my noble friend Lord Olivier, who has repeatedly postponed a question put down in his name, to the general body of your Lordships, and not less to those in the House of Commons who have exhibited a similar degree of patience. If I may venture to express an opinion upon the point, I think that both Houses of Parliament, in this matter, have exhibited a wise constraint. The responsibility for the Government of India is so vast, the problems are so novel and so complex, that no mind, however quickly acquisitive of new facts, or however industrious in its application to their mastery, can hope to make any useful contribution without months of unremitting industry.

I hope I have not altogether misspent the time which the indulgence of the House has made available to me. I propose to-day to make the best attempt I can to discharge the task which will naturally be expected from me; that is, to review the general situation in India. Such a consideration involves financial, commercial and political considerations. I shall attempt to deal with each.

I must, however, make it plain at the outset that upon one, and not the least important, of the subjects to which I must address myself, there has been a considerable measure of misunderstanding. Both in this country and in India there has been much speculation as to the decisions reached by agreement between the Governor-General and myself. No decisions whatever have been reached; nor could any have been reached. Indeed, not even the Cabinet, which has naturally been kept closely aware of the discussions between myself and Lord Reading, has reached any decision. The Government is far too conscious of the implications of the Montagu-Chelmsford constitution to find it possible even to think of conclusions until certain indispensable antecedent steps have been taken.

My noble Friend, Lord Lytton, who is at present the head of the Government of India, has naturally been kept very carefully informed of the discussions between myself and Lord Reading. Week by week, as those discussions have proceeded, he has been made aware, both in general and in particular, of their scope and tendency. Such a knowledge could not properly be withheld from him, though, as I have made it plain, neither he nor his Government is affected by any responsibility thereby. But before any decisions of

any kind are taken, it is obvious that the consideration and advice of the Government of India must be formally invoked; and it is at least equally obvious that the opinions of the Legislative Assembly must be elicited. For reasons which are apparent, we should not dream of announcing or even of forming decisions without the contribution of that very important Legislative body which we have so recently called into existence.

I am not, therefore, to-day either announcing or purporting to announce, decisions or conclusions. I cannot any longer resist the legitimate desire of Parliament to be informed of the result of the discussions which have taken place between the Governor-General and myself. The truest description which I can give of the spirit in which I address Parliament is that, having held this responsible office for eight months, I am attempting a survey of the impressions which its tenure up to the present moment has stamped upon my mind.

I address myself, in the first place, to the financial position of India. I am happy to say that on a general survey, this position must be pronounced satisfactory. The period of heavy deficits which in the five years ending 1922-23 amounted to about Rs. 100 crores, may, in my belief, be regarded as definitely closed. This happy result is to be explained by the continued exercise of strict economy in every department of administration and by the imposition of additional taxation, particularly in the years 1921-22 and 1922-23. I need not trouble your Lordships with an examination of the Budget results, unexpectedly fortunate as they were, of the year 1923-24. But I ought to say a word upon the revised estimate for 1924-25, which shows a surplus of nearly Rs. 400 lakhs with an improvement of Rs. 473 lakhs in revenue and an increased expenditure of only Rs. 92 lakhs. The improvement is mainly attributable to substantial savings in military expenditure, savings in exchange, improved gross Customs' receipts, increase in the contribution of railways to general revenues, and a considerable windfall on account of enemy ships.

The Budget for 1925-26, which is based on an average rate of exchange of 1s. 6d., assumed an excess of revenue over expenditure of Rs. 324 lakhs, of which Rs. 268 lakhs was estimated to be a true recurring surplus. The Government of India had repeatedly announced that their financial policy would be directed to the reduction and eventual extinction of the Provincial contributions at the earliest possible date; and it was therefore decided to utilise Rs. 250 lakhs of the true recurring surplus in the remission of contributions. Under the scheme laid down in the devolution rules, Madras will obtain a remission of Rs. 126 lakhs; the United Provinces, Rs. 56 lakhs; the Punjab, Rs. 61 lakhs, and Burma, Rs. 7 lakhs. The Government of India had already taken into account in its estimates the further remission for three years of Bengal's contribution of Rs. 68 lakhs, which has since been accepted by the Legislature. These proposals, which have been the subject of deep consideration, were not received with any articulate enthusiasm in India. Those Provinces which obtained no relief out of the Rs. 250 lakhs, were dissatisfied,

more especially as the exceptional treatment of Bengal was continued. Bombay was particularly active in protest, and eventually the Government of India obtained the assent of the Legislature to a distribution of Rs. 50 lakhs of the non-recurring surplus, as a grant for 1925-26 only, to certain Provinces which either would not benefit, or would only benefit slightly by the reduction of Rs. 250 lakhs in the contributions. The resolution passed by the two Chambers recommended that the reliefs given to the Provinces should be devoted mainly to expenditure in the transferred Departments.

I ought not to leave the central budget without placing it on record that for the last two years the Government of India has actively pursued the policy of retrenchment in military and other expenditure recommended by the Inchcape Committee. On the civil side, almost all the recommendations of the Committee have received effect, and on the military side, the retrenchments actually secured almost exactly equal the total specific economies recommended by the Committee. The reduction in military expenditure in the last few years is illustrated by the following figures (in crores of rupees) of net expenditure:—

1922-23	65½
1923-24	59½
1924-25 (revised estimate)	57½
1925-26 (budget)	57

The thanks of the country and of this House are due to my noble friend Lord Inchcape for the invaluable services rendered by the Committee of which he was Chairman.

I proceed, my Lords, to add a few observations upon the conditions of trade in this great sub-continent, which is so large a customer of ours at a moment when we need customers wherever we can discover them. India was severely affected by the trade slump which followed the post-Armistice boom. In 1920-21 the adverse balance in merchandise on private account exceeded Rs. 78 crores; in 1921-22, the adverse balance fell to Rs. 23 crores; in 1922-23, the favourable balance, which is a normal feature of Indian trade, was restored, and exports exceeded imports by no less a sum than Rs. 80 crores. In 1923-24 the favourable balance rose to Rs. 134 crores. In 1924-25 there was a happy continuance of the revival of trade, and the favourable balance in merchandise on private account was about 160 crores, which is, unless I am mistaken, a record in the history of Indian trade. It is well known that India normally imports a large amount of precious metals towards the settlement of its trade balance, and last year the net imports of gold and silver were no less than 94 crores. The result of the private trade in merchandise and treasure was that there was in 1923-24 a favourable balance for India of Rs. 86 crores, and in 1924-25 of Rs. 61 crores. This position, a very remarkable one, must largely be ascribed to the fact that the recovery of India's export trade has not been associated with corresponding increase in imports of merchandise. The reasons for the restriction of imports are various. The high prices of

imported goods militated against free purchases. Indian exports, on the other hand, consist largely of raw materials for which there has been keen demand. Lastly, the increase in the Indian tariff must evidently have tended towards smaller imports.

The improvement in India's financial position has enabled the Government of India gradually to get rid of its floating debt, which has, in the main, been funded in the process of loan operations over the last few years. In 1923-24 a 4½ per cent. sterling loan of twenty million pounds was placed in this market at an issue price of 90. This represented an advance of £5 on a previous issue price of 90. This again represented an advance of £5 on a previous issue of the same stock in October 1922. Indian credit in this market has been helped by the improvement in her financial position, which has been appreciated in the city as well as by the general factors that have helped here and elsewhere gilt edged securities. No sterling loan was issued in 1924-25, and the budget for the current year has been framed on the fortunate and reasonable assumption that there will be no fresh sterling borrowing. The absence of the Secretary of State from this market is likely to help further the improvement of India's credit here, especially in view of unprecedentedly heavy appeals to the market since the War.

On the Indian side the market has also been moving in favour of Government as the result of the practical extinction of the floating debt and the reduction in the amount which the Government has been compelled to borrow. In 1923-24 for the first time for many years, the Government of India found itself able to dispense with unlimited loans. The amount it borrowed was limited to 24 crores of rupees; in 1924-25 the amount raised by the Rupee Loan was only in the neighbourhood of 13 crores of rupees. This year the budget assumes a Rupee Loan of 12 crores of rupees, but as a matter of fact no new money will be asked for, the loan, of which particulars have recently been published, being a conversion operation only.

I ought perhaps, in any estimate of the present and future material condition of India, to say a special word upon the subject of agriculture. No greater contrast in occupation than that between the people of Great Britain and those of India could well be found. Whereas the former live in vast aggregation in large towns, the latter live scattered in countless communities over the countryside. In England and Wales 80 per cent. of the population is returned as urban; in India 80 per cent., on a moderate estimate, is recorded as rural. Unfamiliar as these topics are to me, I nevertheless venture with almost dogmatic certainty upon the statement that an immense increase is attainable in the yield and therefore in the prosperity of agricultural India. Much has already been done by the Agricultural Department: by loans, by irrigation, by scientific instruction. Nor am I unaware of the difficulties which beset the path of the reformer. He is confronted by the stubborn conservatism of the peasant proprietor; by an infinite splitting up and subdivision of ownership; even by an obstinate disinclination to be taught new ideas or to adopt fresh methods. But making all allowance for all these diffi-

culties, I would desire to make my opinion plain, that a future of incalculable prosperity awaits India if and when she learns fully to realise and to value her agricultural kingdom. This particular subject is, as your Lordships know, a transferred subject. This circumstance does not render a correlated and rational attempt to deal with it more easy; but it has been closely discussed between the Governor-General and myself; and I am not without hope that, during my tenure of office, if I am fortunate, it may be in our power to contribute to its further development a powerful impetus.

I pass now to a general consideration of political condition in India, and here I naturally approach the most important of the discussions which have taken place between Lord Reading and myself. In 1919 a remarkable and extremely bold experiment was made. It was made in the atmosphere of post-war idealism. My predecessor, Mr. Montagu, who was chiefly responsible for this experiment, must, on the whole, accept any censure where it has failed as he is entitled to all the credit where it has succeeded. He died prematurely. As one who at the time was never a particularly enthusiastic, though, of course, I was a responsible, supporter of his policy, I may be allowed, now that he is dead, to pay a tribute of respect and admiration alike to his idealism and to his courage. He was a true friend of India; and his name will not, I believe, be forgotten in that country.

The Act of 1919 was admittedly an experiment. No country in the world has ever been confronted with problems comparable to ours in India. Of the 440 millions of British citizens who constitute the British Empire, 320 millions are Indians. The loss of India would mean a shrinkage in the Empire from 18,250,000 to less than 11,500,000 square miles. Our problem is, in fact, and always has been, one of prodigious difficulty. It is to accommodate the minds of the East to those of the West, or if you prefer so to say it (I have no prejudice in the matter), the minds of the West to those of the East. History can in fact in all its courses afford no parallel for such a partnership.

When the British nation first decisively intervened in India, there was no question of a successful and independent national destiny for this incalculable country. It was in disintegration. It could not have continued to cohere. It was in 1746 that the state of war commenced between Great Britain and France in India from which, in the result, we were to emerge as the supreme Power in Asia. And it was not until the year 1765 that that supremacy was decisively asserted. I am, I believe, making no excessive claim when I lay it down that whatever mistakes have been made in the generations that have followed, the fiduciary obligations which we undertook in relation to the complex peoples of India, embracing as they do a population of 320 millions, practising nine great religions and speaking 130 different speeches, have not been unfaithfully discharged. Certainly it will not be disputed that we have never lagged behind the temporary world standards by which responsibilities of this kind have been measured by those Powers which have found themselves, never indeed in analogous, but sometimes in remotely comparable circumstances. And so it happened, consistently with our habit of keeping abreast

with the current of modern thought, that we decided, with the full and deliberate acquiescence of both Houses of Parliament, to make that great experiment which is known as the Montagu-Chelmsford constitution.

It is extremely important that we and others should realise with precision what was done by the Government of India Act, 1919. Its permanent and static effect is unquestionably contained in the Preamble. The Act itself was admittedly fluid and experimental. I shall not feel that I am wasting the time of your Lordships if I ask leave to remind you of the terms of the Preamble. Its language ought to be borne in mind by every instructed critic of our Indian policy and of the actual Indian situation with which I have to deal. These were the words of the Preamble; this is the obligation contained in that Preamble to which, and to which alone, we set our hands:—

“Whereas it is the declared policy of Parliament to provide for the increasing association of Indians in every branch of Indian administration, and for the gradual development of self-governing institutions, with a view to the progressive realisation of responsible government in British India as an integral part of the Empire:

And whereas progress in giving effect to this policy can only be achieved by successive stages, and it is expedient that substantial steps in this direction should now be taken:

And whereas the time and manner of each advance can be determined only by Parliament, upon whom responsibility lies for the welfare and advancement of the Indian peoples:

And whereas the action of Parliament in such matters must be guided by the co-operation received from those on whom new opportunities of service will be conferred, and by the extent to which it is found that confidence can be reposed in their sense of responsibility:

And whereas concurrently with the gradual development of self-governing institutions in the Provinces of India it is expedient to give to those Provinces in provincial matters the largest measure of independence of the Government of India, which is compatible with the due discharge by the latter of its own responsibilities:”

These words expressed the deliberate and deeply considered decision of Parliament. Conformably with the principles laid down in this Preamble, one Constitution or another might, at one time or another, be attempted. Experience educating us, or informing our critics in India, might induce us to make an amendment here or an advance or a variation there. But the whole message, as we understand it, of our situation in India, with all that it involves in the storied past, in the critical present, and in the incalculable future, is to be read in that Preamble. We shall not be diverted from its high obligations by the tactics of restless impatience. The door of acceleration is not open to menace; still less will it be stormed by violence. But there never has been a moment since the Constitution was adopted in which the Government of India, acting in harmony

with the Government at home, has not been vigilantly and attentively considering the spirit in which the present reforms have been received in India. It has indeed been an imperative and urgent duty for my predecessors and myself so to consider them. Wise men are not the slaves of dates; rather are dates the servants of sagacious men.

Developments have been easily conceivable to me—are still not wholly inconceivable to me—in which the acceleration of the date of the Royal Commission might have been recommended even by very cautious statesmen. I should, however, be failing in my duty if I did not make plain my clear and definite impression that the tactics hitherto pursued by the most highly organized party in India could not have been more happily conceived if they had been subtly intended to forward the cause of reaction. A Constitution was given which, whatever its defects, beyond question afforded great opportunities to the politically-minded—if I may adopt a phrase I do not specially admire—among the Indian peoples. The opportunities not ungenerously offered might have been made the occasion of a sincere co-operation uniting the ancient and sophisticated traditions of the East with the more practical experience of the West. I suspect that a really gifted national leader would have used the Constitution, with all its possibilities of extension, in this sense.

No such leader was forthcoming. We have been confronted everywhere by those who are our principal opponents, with a blank wall of negation. They did not say: "You have not given us enough; but we will prove by our use of that which you have given that we are fit for more." And yet such an attitude would have been both sensible, practical and politic. What is ten years in the age-long history of the immemorial East? Our critics took a different line. They said: "We will have nothing whatever to do with your Constitution." Borrowing a quotation which they would perhaps have been unwilling to employ, they almost said "East is East and West is West, and never the two shall meet." They ignored the view, and I think they were profoundly mistaken in doing so, that, strange and apparently incongruous as is the partnership between the two countries, each has much to contribute to the thought and inspiration of the other. The art, the civilisation, the sophistication, the literature and the philosophy of India, though spread over an incredibly wide field and derived from many confluent streams, contain an individual quality to which, in their subtlest elements, Western thought has not attained.

And it is equally true that the practical qualities of the Anglo-Saxon race, harnessed to a very experienced and common-sense outlook upon world politics, brings to the partnership qualities which will not be often found to the East of Suez. Common sense and reason would, therefore, appear to suggest that men of enlightened view in India and in Great Britain should have proceeded upon lines of thought which ought almost—assuming necessary allowances all round—to have proved identical. To talk of India as an entity is as absurd as to talk of Europe as an entity. Yet the very nationalist spirit which has created most of our difficulties in the last few years is based upon

the aspirations and claims of a nationalist India. There never has been such a nation. Whether there ever will be such a nation the future alone can show.

One of the greatest anxieties which confronts us in India to-day is the communal differences which divide 70 millions of Moslems from the vast Hindu population. The noble Lord who was my predecessor is indeed mistaken if he finds any signs that these differences have been composed in the last few years. In these dissensions we have kept our hands unsullied by partisanship. If we withdrew from India to-morrow, the immediate consequences would be a struggle à outrance—I choose my words carefully—between the Moslems and the Hindu population. I put on one side, for the purposes of this anticipation, the perils obviously afforded by the existence of two or three million turbulent and martial tribesmen, living precariously between the frontiers of India and the borders of Afghanistan.

The actual circumstances being, it seems to me, indisputably such as I have indicated, I have always been puzzled to understand the train of reasoning which passes through the minds of the clever men who have unfortunately made themselves our antagonists in India. There are many such men. I have tried with the greatest sympathy to understand their point of view. I have asked them whether they contemplate the withdrawal at an early date of the British troops from India. I have never found one who advocated such a course. Is there in fact one responsible leader of any school of Indian thought who will to-morrow say: "Commit to us at once the full responsibility; and we will acquiesce at once in the withdrawal of British troops from India"? I do not believe that such a man could be found and if he could, my opinion of his judgment would undergo a swift diminution. I do not speak upon this point without having had many opportunities of founding a conclusion derived from many divergent sources of information. Your Lordships may, I think, take it from me as an almost generally accepted conclusion that an immediate repudiation of our responsibilities in India would be at least as fatal to the interests of India itself as in any year since 1765.

I have thought it desirable by way of a somewhat lengthy preface to make these general observations before I state my view as to the degree in which the Montagu-Chelmsford Act has been a success or a failure. I am bound in such a matter to make my views precisely plain. In common with my colleagues in the Cabinet, I must, of course, accept full responsibility for that great constitutional change. But I may perhaps be permitted to say that I entertained greater doubts upon this reform than some of those with whom I co-operated. For this reason I am of all people specially bound to attempt an honest and impartial review of the working of the Act. I myself was always very distrustful of the diarchical principle. It seemed to me to savour of the kind of pedantic and hide-bound Constitution to which Anglo-Saxon communities have not generally responded, and which in my anticipation was unlikely to make a successful appeal to a community whose political ideas were, thanks in the main to Macaulay, so largely derived from Anglo-Saxon models.

I am obliged, therefore, to address myself candidly to the question: "Has the Montagu-Chelmsford reform succeeded, or has it failed?" My Lords, I cannot say that it has failed. It has been exposed to every cruel mishap which could befall a new Constitution, freely conceived and generously offered. Most of the popular leaders in Indian life have abused and defamed it. It has never been given a chance. Mr. Montagu undoubtedly looked, and surely he was entitled to do so, to those who cherished the most sanguine expectations of Indian political capacity to co-operate in his great task. These expectations were not realised. The critics of Indian capacity for self-government would indeed have been helpless had wiser counsels prevailed in India. Suppose, for instance, that judicious and sagacious co-operation had been exhibited by the leaders of Indian thought. Does any one imagine that reactionary critics of those reforms in this country could in that event have retarded the chariot of progress? Had that which was given been used with cheerful goodwill to justify the gift of that which was still sought, the task of acceleration would have been easy indeed. Unfortunately, the leaders of Indian thought contributed a different bias; and the most highly organised political party in India wasted its energies upon the futile attempt to destroy that which we had conceived, at least in its first fruits, to be a generous experiment.

But not all the resources of a very adroit and sophisticated party have availed to destroy this experimental Constitution, and indeed, I, who was prepared to curse, upon the balance of the whole matter find myself almost inclined to bless. These general observations, very necessary to be borne constantly in mind, lead me to inform your Lordships more closely of the results of the working of the new Constitution. We are aided in the task of attempting a general survey of its workings up to the present in different parts of India by the reports which have recently been presented by the Governments concerned. In the main I accept and am prepared to justify and defend them.

In Madras the transitional Constitution has worked with a great measure of success. Ministers have used their influence to steady public opinion and feeling, and have displayed a general moderation and no small measure of statesmanship. The Governor in Council has stated that if an earnest endeavour to work on constitutional lines is a qualification for political advance, the Madras Presidency has shown itself fitter for an advance than any other province. It is not my wish or concern to dispute that claim.

In the present Council of Bombay, the Swarajist Party is the strongest in numbers, but does not command a majority, and it is pledged to a policy of refusal of political responsibility. The Ministers were, therefore, selected from the smaller groups, a circumstance which must obviously be a source of weakness. Lacking sufficient support from their followers, they are driven to lean precariously upon the official vote, and so the distinction between the two halves of the Government has been almost completely obscured. The Bombay Government has recently pointed out that the main object at present must be

to strengthen the position of the Ministers and to encourage the organisation of parties.

In the first Council elected in Bengal, progress was made and some solid achievements were recorded. The Government claims with justice that Ministers were able to influence a sufficient number of the Members to make it possible, with the aid of officials, to carry through a considerable amount of useful legislation. The second Council contained a large and influential body belonging to the non-co-operation party, which is pledged, of course, to prove that the present Constitution is unworkable. This body was joined by the Independents, and the combined party commands more than 60 votes in a House of a total strength of 140. The possibility is by no means to be excluded that at the next General Election there may be a return of an absolute Swarajist majority, taking office with the avowed intention of wrecking the Government from within. The Government points out that the Constitution requires to be specially considered from the point of view of giving the Executive power to deal with obstruction.

Since this Report was framed by the local Government, the Bengal Legislative Council has very plainly indicated that it prefers to dispense with Ministers and the diarchic Constitution. Accordingly, the Government of India and I had no option but to suspend the transfer of subjects in that Province. Your Lordships will not fail to observe that whether the Constitution was good or whether the Constitution was bad, it had at least plainly contemplated the very contingency which has in fact happened, and whether it is a weak point of the Constitution or whether it is a strong point that has assumed the limelight in Bengal, those who framed the Constitution are at least entitled to point out that the Constitution still shows the reserve of strength with which it was endowed at the time it was drafted.

The Government of the United Provinces say that it is constantly alleged by their enemies and critics that the reforms have failed. If this means that the Constitution has definitely broken down they absolutely deny the statement. Since the collapse in its original form of the non-co-operation movement, it is claimed that the internal conditions of the Province have steadily improved, and except for the tension between Moslems and Hindus—which has nothing whatever to do with the Constitution—there is nothing to cause the Government serious anxiety. Forty-seven millions of people in these Provinces are living peaceably under an ordered and progressive administration, and are probably more prosperous than their predecessors have ever been. The reformed Constitution has failed, it is true, to satisfy alike the Swarajists and the Liberals, and this constitutes some small cause for anxiety. The Governor in Council, in words quoted by the noble Lord who moved, has, it is true, placed it on record that, in his opinion, the diarchy is a cumbersome, complex, confused system having no logical basis, rooted in compromise and defensible only as a transitional expedient. My Lords, I have said enough to

Lord and myself this will neither be one of the most bitter nor the most protracted.

In the Punjab the working out of the scheme has driven the two main communities, Hindu and Mahomedan, into open dissension. This is an extremely interesting local development. It has unquestionably aggravated and rendered more bitter their communal differences, and it has further developed an acute antagonism between the urban and rural interests. There is not as yet, in the view of the Government, evidence of the existing of a thinking and selective electorate in the districts capable of exercising its vote on considerations of policy. Here, too, the diarchial scheme has produced considerable anomalies, and it cannot, I think, be plausibly claimed that so far the Punjab afforded a suitable field for the introduction of such a divided responsibility. So far, Ministers willing to co-operate with the Executive have been found who have been supported by a party which has not attempted to force them into an extreme position.

In Burma, the reforms were introduced two years later, as your Lordships may recall, than in the other Provinces in India. Less than seven per cent. of the electorate voted at the only General Election held, and this was boycotted by the extremists. During the eighteen months in which the reforms have been in operation hardly any difficulties have been experienced, and hardly any defects discovered in the working of the Constitution.

I have almost finished this category, but I think your Lordships will agree that it is important. The Government of Bihar and Orissa said that one may search in vain for signs that three years of the reforms have educated the electorate to the meaning of an election and the business of a legislature. In many districts the reports of the presiding officer declared that a large proportion of the voters did not know the name of the candidate for whom they voted, but had only been told the colour of his box. The Government includes amongst the causes which have contributed to the non-success of the reforms, the failure to create a ministerial party prepared to support the Ministers in carrying out a definite programme. The Council still remains divided into two parties, official and non-official. Where the issue is not an anti-Government one Ministers have their following in Council, but they cannot bring this to bear on political conditions and cannot therefore assist Government in times of difficulty. The local Government adds that there is very little that can be done to smooth the working of diarchy, or to eliminate administrative imperfections.

The Central Provinces Government say that the value of the experiment in responsible Government during the first Council was weakened, first, by the lack of connection between the Members and their constituents, secondly, by the absence of any Party organisation which would have made the responsibility of Ministers to the Council effective; and, thirdly, by lack of funds. The fair measure of success in the working of diarchy, which, in their claim, was achieved, was due partly to the moderation of the Council, and partly to the efforts made to work the scheme by the Members of Government and the

permanent services. Here also the Province is for the time being without Ministers, but I am not without hope that their appointment may shortly be found feasible.

In Assam the Governor in Council sums up the difficulty of working the Constitution as due, firstly, to the existence of a section of public men, considerable enough in numbers and ability to influence the Council, which is actively hostile to the present Constitution, and declines to work it; and, secondly, to the financial difficulties which have precluded the local Government from undertaking any activities other than those of carrying on the essential administrative functions on pre-existing lines. The Ministers have thus no convincing answer to the cry of their opponents that the reforms have bestowed no benefits on the electors.

Enough has been said to satisfy my present purpose—which is to show that no short or dogmatic answer can be given to the question; has the Constitution succeeded? It has neither altogether succeeded, nor has it altogether failed; and it must further be noted, by way of additional qualification, that where it has succeeded the price of success has been, at some stages and in some districts, a considerable inroad upon the diarchical principle. I have not thought it proper to discourage such tendencies, holding the view that the whole matter was experimental, and afforded an opportunity to each province to work out its constitutional salvation in its own way.

What, then, is it possible for me to say, at this stage, of the future? The wisdom of Parliament declared that, after the period of 10 years, the Montagu-Chelmsford Constitution should be reviewed by a Royal Commission. It will undoubtedly require such revision; and it cannot be too plainly stated that everything will necessarily be thrown into the melting pot. Diarchy itself is very obviously not a sacred principle. It must be decided by results. The conception was always doctrinaire and artificial. A great measure of success may justify it, where a smaller would not.

And now I apply myself more closely to a subject which has caused much speculation, and provoked at least an equal degree of agitation—the date of revision. To those who framed the reforms, ten years appeared to be a reasonable period for review; and in determining what was a reasonable period for the purposes of revision, it seems unnatural to suppose that Parliament presciently anticipated the very unreasonable campaign of non-co-operation which has done its best to wreck the Constitution altogether. Even assuming co-operation, it was thought that a period of ten years would be required to afford the data for reliable conclusions and generalisations. But I do not hesitate to make clear my own view that it was not the intention of the Legislature to attempt to shackle succeeding Governments, if a spirit of cheerful and loyal co-operation was generally exhibited on the one hand, or if upon the other, grave and glaring defects disclosed themselves. It would, indeed, have been an assumption of omniscience alien to the Anglo-Saxon tradition, for Parliament to assume so high a prophetic gift as to declare that in no circum-

stances should the date of the Commission be accelerated. In fact the door was never closed; it is, on the contrary, open to-day; but the condition is clear and precise. There will be—there can be—no re-consideration until we see everywhere among the responsible leaders of Indian thought evidence of a sincere and genuine desire to co-operate with us in making the best of the existing Constitution.

The Swarajist Party has, in my opinion, most unhappily so far thrown its powerful weight into the other scale. Along this road there is no progress. That party has recently lost a capable and energetic leader, who commanded great support, and made many sacrifices for a cause in which he profoundly believed. But I should fail in my duty if I did not make it absolutely plain that the advice which he gave to his countrymen was throughout unhappily conceived. It may be—I dare attempt no prediction—that his untimely death will even now afford an opportunity of reconsideration. It has been the habit of the spokesmen of Swarajist thought to declare in anticipation that no Constitution framed in the West can either be suitable for, or acceptable to, the peoples of India. It has always seemed to me that a very simple answer may be made to such a contention. We do not claim in Great Britain that we alone in the world are able to frame Constitutions, though we are not altogether discontented with the humble constructive efforts which we have made in this field of human ingenuity. But if our critics in India are of opinion that their greater knowledge of Indian conditions qualifies them to succeed, where they tell us that we have failed, let them produce a Constitution which carries behind it a fair measure of general agreement among the great peoples of India. Such a contribution to our problems would nowhere be resented. It would, on the contrary, be most carefully examined by the Government of India, by myself, and I am sure, by the Commission, whenever that body may be assembled.

I gladly recognise that the so-called Liberal Party in India, neither inconsiderable in numbers nor lacking in the leadership of enlightened men, has refused to associate itself with the ill-starred course of non-co-operation. It is still possible that this party, perhaps to be gradually reinforced by fresh moderate elements, may play a great part in the Constitution fashioning of the future. I pass at this point by a natural transition to the Muddiman Report, a subject to which the noble Lord (Lord Olivier) devoted a great part of his observations. The obligations of the Government must be admitted to the experienced men who contributed so much labour, and produced so competent a Report. We do not anticipate—for reasons which I have already made plain—that we shall be able, as the noble Lord desired, to accept the Report of the Minority at this stage. The problem of provincial autonomy has not indeed been adequately thought out by those who are to-day pressing it so strongly upon our attention. Provincial autonomy contemplates the complete transfer to all the Provinces of law and order; and it would render necessary far reaching changes in the Central Government of India which I have never yet seen closely analysed, and very rarely even cursorily examined.

The noble Lord (Lord Olivier) certainly to-day attempted neither analysis nor examination.

It is rather on the lines recommended by the Majority that any immediate action must be taken. As I have already said, we must await the formal views of the Government of India on this matter; but it will certainly be the desire of His Majesty's Government to go as far as possible in carrying out the proposals which the Government of India may make after discussion in the Legislative Assembly. Many of the recommendations of the Committee can be carried out by regulation, and do not require an Act of Parliament. There need be no delay in making these changes. In those cases where legislation is required the matter will be appropriately dealt with as and when opportunity offers.

I ought next, my Lords, to make a few observations upon a subject which has greatly exercised Indian speculation, namely, the so-called Indianisation of the Army. An essential factor in India's advance towards responsible Government is, to Indian minds, the possession of a national army. We can all see why, and we can all understand and appreciate Indian aspirations. But here again we are in the region of experiment, and of very delicate and dangerous experiment. The method which has been adopted is that of the complete but gradual Indianisation as an experiment of eight units. It is criticised as being both slow and limited in scope. The process must indeed necessarily be slow—the length of time which it ordinarily takes the British officer, if he is fortunate, to reach the command of his regiment is twenty-five years, and there is no reason to expect that an Indian officer will take a shorter time. And the experiment is necessarily limited in scope if only by reason of the paucity of material. For, apart from the fact that we cannot afford to risk in any degree lowering the efficiency of our small Indian Army, on which the security of India depends, at present we have difficulty in finding enough Indian cadets up to Sandhurst standard to provide subalterns even for these eight units. We are doing our best to remedy this. The Prince of Wales' Military College at Dehra Dun is beginning to produce boys of a more promising type; and the Government of India have recently appointed a Committee, under the presidency of the Chief of the General Staff, to examine the whole question of training for the Army. They may recommend the creation of an Indian Sandhurst, and if they do we shall consider their recommendation with every desire to do what may appear necessary to make this experiment of Indianisation a success within its limits. But until it has been shown to be a success within those limits, it is not our purpose to go beyond them. How could we? An Army exists after all for the purpose of fighting, and if we could not get eight units that would fight efficiently, what would be the use of trying sixteen? No sane Government will allow its Army to become the toy of political parties.

I know that some Indian politicians dislike this particular experiment on the ground of what they call the "segregation" of Indian officers in these eight units, as though some idea of inferiority were involved in it. The com-

plaint comes ill from those who criticise the slowness of the experiment. For what is the advantage of concentrating Indian officers in these units? Just this, that the test being whether a completely Indianised unit is as good as any other—the sooner we create completely Indianised units the sooner we shall know whether the experiment has succeeded or not. And is not that exactly what the politicians themselves want? One would almost think that those who complain of “segregation” are not so sure as they sometimes seem that the experiment will succeed, and shrink from the conclusive test—

“ He either fears his fate too much
Or his deserts are small,
Who dares not put it to the touch,
To win or lose it all.”

But I do not wish to appear unsympathetic. I am not so. We are doing our best. No one did more for India in this matter than the great Commander-in-Chief whose loss we have recently been lamenting, and I adopt his words:—

“ We are experimenting with the Indianisation of eight units of the Army. The experiment must be carried through. It may succeed or it may not. That remains to be seen, but, whatever happens, the experiment must be tried out, and not plucked out by the roots to see how its growth is progressing . . . India must have the best and nothing but the best for the foundations of her future Army.”

And now I pass to the position of the Services. I do not want to say very much about this—it will be one of the subjects for the Royal Commission when the time comes. But there is an aspect upon which I must touch. One of the objections to the present Constitution which is most constantly put forward is that Ministers are prejudiced in their task by the fact that not all the services which are the instruments of their policy are under their control, and that the Bill now before Parliament tends towards accentuating this difficulty. I should be the first to welcome signs that the provisions in the Reforms Act, which reserved to the Secretary of State a considerable measure of direct responsibility for the Indian Services, even in the transferred sphere, were unnecessary, for they would be the best indication that Indian political opinion has realised the vital necessity to the well-being of any form of government of giving public servants general support and encouragement in the fulfilment of their duties. Unfortunately such signs are still all too rare, and until public servants, both English and Indian, can feel in India, as they can elsewhere, that unfair and captious criticism of their actions will be neither voiced nor tolerated by responsible public opinion, the reservations in support of the services contained in the Reforms scheme will unfortunately remain justified and necessary.

I have already discussed in this House a revolutionary outbreak in Bengal which, in my judgment, rendered the adoption of exceptional repressive measures essential. These measures have not failed in their effect. The local situation is being constantly and vigilantly watched, and when the general

interest and safety of the community justify relaxation, such relaxation will not be withheld. But that moment has not yet come. I ought to make a passing mention of that unhappy efflorescence of communal difference which has occasioned increasing anxiety in many parts of India. These disturbances, troublesome and grave as in some districts they have been, serve as a reminder that Indian problems are not so simple as is sometimes superficially imagined. The presence in India of 70 million Mohammedans, martial in their traditions, and virile in their qualities, contributes an immense complication to difficulties already incalculably great. This situation is being most closely watched both by the Government of India and in my Office.

I add next a word on the subject of the great Ruling Princes of India. Their generosity, their loyalty and their courage have been proved on many a stricken field, and need no eulogy from me. Their rights in the majority of cases are stated and consecrated by solemn treaties. Whatever changes and developments the future may bring with it, we shall never fall short in our obligations to those who have shared our perils and never despaired of our Imperial destiny.

I must add a very brief observation upon a matter of great consequence which has caused, and continues to cause, me grave anxiety. I refer to the conditions in which many Indian citizens of the Empire live in various parts of His Majesty's Dominions other than India. The subject is notoriously delicate, and one must avoid indiscreet or unskillful language in relation to it. But I may, I imagine, without offending any interest which I am bound to consider, ask other parts of the Empire to remember how profoundly this problem affects relations between the Empire and India. I know their difficulties. No one, I believe, knows them better. I do not ask more than that, in every measure which they take, they should exhaust every effort to avoid such a discrimination as must deeply wound the ancient and dignified peoples of India.

And now, my Lords, my task is nearly ended. I have had the advantage during the last few months of constant discussions with my noble friend the Governor-General. Let me take this opportunity once for all of expressing the obligations under which I myself, and indeed the whole country, are to His Excellency. His prudence, his circumspection, his judgment, his patience and his courtesy, have all been exhibited upon a stage which demanded these very qualities at this very time. He has supported without dismay the burden of many anxieties; and has maintained a high and serene composure in the face of many and various antagonisms. I sincerely hope that he will return to complete his task, strengthened and re-created in health.

I cannot affect to believe that the contents of this speech, to which your Lordships have listened with so much patience, will bring satisfaction to those elements in India which are determined to remain dissatisfied. But I would nevertheless remind them that while we have obligations in respect of the voters, who numbered only some 8½ millions at the last Election, we have also obligations in respect of the 250 millions in British India, of whom we are the

responsible guardians, and in a less degree in respect of the 70 millions in the Indian States. While, as we survey the strange history which has associated two peoples so different in origin, in civilisation, and in religion, we are conscious of many errors of judgment and even of some occasional acts of wrong, we are nevertheless bold enough to claim that, in fair perspective, we have not been the unworthy trustees of the charge which we undertook so many generations ago. We have brought to this gigantic task an unstinted devotion. Many a nameless hero has spent his strength and flung away his life in grappling with the hideous spectres of famine and disease. Many an illustrious Viceroy, as the stately pages of Lord Curzon's book remind us, has mortgaged too deeply in this same task his vital resources.

The terms of the Preamble are even now not incapable of realisation. But we must first expel and exorcise the demon of suspicion. We ask the Indian people to-day, with the deepest sincerity, for good will and for co-operation. But while it is an object close to our minds to create this atmosphere, I should be guilty of disingenuousness if I painted at this moment the prospects in colours too vivid or too sanguine. I am not able in any foreseeable future to discern a moment when we may safely, either to ourselves or India, abandon our trust. There is, my Lords, no "Lost Dominion"; there will be no "Lost Dominion" until that moment—if ever it comes—when the whole British Empire, with all that it means for civilisation, is splintered in doom. It is our purpose resolutely, tirelessly, and wholeheartedly, to labour for the well-being of India as our ancestors have laboured throughout the generations. For that purpose, we desire, and we request good will; nor shall we be niggardly bargainers if we meet with the generous friendship which is near and dear to our hearts. We no longer talk of holding "the gorgeous East in fee"; we invite in a contrary sense the diverse peoples of this continent to march side by side with us in a fruitful and harmonious partnership which may recreate the greatest and the proudest days of Indian history.

APPENDIX V.

THE HON'BLE MR. V. J. PATEL'S SPEECH, DATED 22ND AUGUST 1925.

Gentlemen, I thank you most sincerely for electing me to this Chair. I thank you again for the kind words that you have spoken this morning and for the best wishes that you have expressed. I frankly confess, gentlemen, that the feeling uppermost in my mind just at this moment is that it will be difficult for me to carry on the duties of this office after having been engaged for 12 or 15 years in public activities. But I assure you that I have accepted this office with high hopes and fully realizing the implications involved therein. I had to consider, in my mind, whether I would be more useful to the cause of my country by remaining a non-official Member of this Assembly or whether I could serve my country as usefully by accepting this Chair if you offered it to me. Before I made up my mind to stand as a candidate, the decision of this question worried me for days and nights, and ultimately I came to the conclusion that I would be serving the cause of my country better by the choice I have made and therefore I accepted it. The Swarajists are often described as critics, destructive critics: and it has therefore become their duty, whenever an honourable opportunity offers, to show not only to this House but to the whole world that, if they know how to destroy, they know also how to construct. They have to show when real responsibility comes to them that they are ready to discharge the duties placed upon their shoulders. You know, gentlemen, that His Excellency the Viceroy was good enough to plead for co-operation for the new President from all sections of the House; my predecessor, to whom we just bade good-bye, also pleaded for such co-operation. May I also appeal to every section of this House for the same co-operation? When I ask for co-operation, Gentlemen, I assure you that I am conscious of the fact that it cannot be one-sided. Co-operation is always mutual; and I particularly ask the official Benches to bear this in mind that when I appeal to them for their co-operation, I am ready in every sense of the term to extend my co-operation to them. (Cheers.) The principles which will guide me in the discharge of my duties have already been expressed by me in my letter to the Members of the Assembly. I should have liked to read out those words now, but I am sorry I have not got them with me. In the discharge of my duties, I shall, I assure you, observe strict impartiality in dealing with all sections of the House, irrespective of Party considerations. (Cheers.) From this moment, I cease to be a Party man. I belong to no Party. I belong to all Parties. (Hear, hear.) I belong to all of you and I hope and trust, my Honourable friend, the Leader of the Swaraj Party, will take immediate steps to absolve me from all the obligations of a Swarajist Member of this House, if, indeed, it has not been done by implication in consequence of my election to this Chair. (Cheers.) Misgivings have been

expressed in some quarters, fears have been entertained, that I would not meet the Viceroy, that I would do this, and that I would do that. I assure you, friends, that I am going to do nothing of the kind. If the duties of my office require me to see the Viceroy ten times a day, I am here to do so. If for the discharge of my duties it is necessary that I should see every official Member of this House, I will meet him. None need have any doubt about it, and none need have any apprehensions about it. Once again, let me thank you for the co-operation that you have promised in the discharge of my duties. (Cheers.) I will now ask Honourable Members to come up and shake hands with me.

APPENDIX VI.

HIS EXCELLENCY THE VICEROY'S SPEECH, DATED 20TH AUGUST 1926.

Gentlemen of the Indian Legislature, after a considerable separation from you—a separation on this occasion to be measured not only in point of time, but also by distance in space—it gives me special pleasure to meet you, the Members of the Indian Legislature, once more and to welcome you to the labours of another Session. My first endeavour must be to gather up the threads of administration in India and to mention a few of the topics which have been engaging attention during my absence, or which are likely to occupy your interest in the immediate future. It is a source of gratification to me that in my absence no anxious crisis arose in India, and that the administration was carried on smoothly and efficiently under the capable guidance of His Excellency Lord Lytton.

But though the Ship of State has been sailing in calm waters, the hand of death has lain heavy in recent months on the friends of India, both English and Indian. Within the last year, and within a few months of each other, two Englishmen—Mr. Montagu and Lord Curzon—whose names will endure conspicuous in the roll of the great English statesmen who have loved India and devotedly served her—one as Secretary of State, the other as Viceroy—have passed away. They approached Indian problems not always from the same angle of vision. I had the advantage of many discussions with them before I left for India. They were of the greatest assistance in preparing me for the duties of my office. They were the last to bid me good-bye when I first set out for India. Alas! they were both absent from the circle of friends to greet me on my return. More recently the death of two distinguished Indian political leaders—Mr. Das and Sir Surendranath Banerjee—both men of marked personality, intellectual capacity and energetic patriotism, though of different views, has left India in mourning. We have to mourn too the death of the Maharaja Scindia of Gwalior, one of the greatest of Indian Princes, a wise ruler and a true patriot whom I was proud to count among my friends. I pay also my tribute of regret for the death of two Members of the Legislature—Khan Bahadur Shams-uz-Zoha and Sir Leslie Miller.

And last I must mention the loss which has befallen me and my Government—nay more, India and the Empire—in the sudden and tragic death of the late Lord Rawlinson, one of the most eminent soldiers who have served this country in the high office of Commander-in-Chief. There is no need for me to repeat to you on this occasion the story of his military achievements; his fame as a soldier, both in peace and war, is far extended and will long endure. But it is fitting that I should take this opportunity of commemorat-

ing the special service which Lord Rawlinson rendered to my Government, and to India, through his qualities of sympathy and breadth of outlook, and through his prudent and efficient administration of the military services of this country. Members of both Houses of the Legislature will moreover recall many occasions on which they received at his hands the most distinguished consideration. It was ever his desire to satisfy their interest in, and increase their knowledge of, the Army and Army Administration. It is especially true to say that in all his work as Commander-in-Chief and as Member of my Executive Council his constant aim was to secure that which he sincerely believed to be the best both for the India of the present and the India of the future. I deeply mourn the loss of a personal friend and comrade.

“The Souls of the righteous are in the hands of God,
There shall no torment touch them.”

When Lord Rawlinson died, his successor, Field-Marshal Sir William Birdwood, though already designated, was not in India, and in such a situation my Government were fortunate in that they could for the time being command the services of General Sir Claud Jacob, of whom it is sufficient to say that his fitness to fill the breach rested upon 42 years' service in the Indian Army, the high reputation as a Commander of troops which he gained during the Great War, his still recent experience as Chief of the General Staff in India, and last but not least upon the respect and confidence in which he is deservedly held throughout the Army in India. To-day it is my privilege and pleasure to extend a cordial welcome to Sir William Birdwood who in the last few days has returned to India and assumed his high office. He is the first Commander-in-Chief in India to hold at the same time the exalted military rank of Field-Marshal, a distinction which he has earned by services to the Crown of an exceptionally high order, both in India and elsewhere. Sir William Birdwood is, however, so well and widely known as to stand in no need of further recommendation from me. I welcome him also as a colleague in my Council and wish him good fortune and good guidance in the discharge of the responsible duties upon which he has entered.

Gentlemen of the Legislative Assembly, in pursuance of the provisions of the Government of India Act, you have been called upon, for the first time, to elect your President on the 22nd day of this month, and it is therefore fitting for me on this occasion to express my own and my Government's appreciation of the services which have been rendered, not only to the Assembly, but also to the Provincial Legislative Councils throughout India, by the first President of the Legislative Assembly. The Legislative bodies as established under the Government of India Act were so different in their composition from those set up under earlier Acts of Parliament that it was thought right to make provision for a President who should be indubitably independent of the Government, a person clear of all possible suspicion of being even unconsciously biased in favour of Government. At the same time it was recognised that on the standard set by the first Presidents of the different Legislative bodies, and more particularly on the standard set by the first President of

the Legislative Assembly, the future of the Assembly and of the Legislative bodies in the Provinces would greatly depend. It was essential that the first President of the Assembly should be a man liberally versed not only in the written rules, but also in the unwritten tradition of the Mother of Parliaments, so that, in the time allotted to him by the Statute, he might establish in this Assembly a high standard of public order, a true appreciation of the dignity and responsibilities of the Chamber, and a perfect confidence in the rigid impartiality of the Chair, and further that he might foster in every Member of the Assembly a deep sense of regard not only for the rights, but also for the feelings of every other Member of the Chamber, a sense of regard which should remain unaffected even in the extreme heat of party controversy. Gentlemen, to my great regret it has not been my privilege to attend your proceedings in person, but in addition to your printed proceedings, a daily report reaches me of your doings, and alike from these sources and from the testimony of official and non-official Members of this Assembly and also of the distinguished visitors from many parts of the world who have witnessed your proceedings, I am able to say with confidence that Sir Frederick Whyte has discharged to the utmost the very heavy responsibilities laid upon him as first President of the Legislative Assembly, and I welcome this opportunity of tendering to him my thanks and the thanks of my Government for his very notable achievement. If I may be allowed to offer advice to his successor, it is that he hold fast to the tradition which has been established for your Chamber by your first President, and to this end I ask you gentlemen of the Assembly to give to your new President in his difficult task the generous co-operation which you have always accorded to your first President.

I pass now to a brief review of the affairs of India. I am glad to say that our relations with neighbouring States remain cordial and that no questions of importance are outstanding. I wish I could report an equal absence of controversial matter in regard to the position of Indians in South Africa. At the moment I should not be well advised to say more than that my Government is watching the situation closely and is still in communication with the Government of South Africa.

In internal affairs we have been faced recently with some industrial depression. Fortunately this has not been associated with any failure of Indian harvests, and exports have been well maintained. The depression in Indian industries appears to be a phase of a world-wide movement. Throughout the world industries are experiencing the difficulties of adjusting themselves to the new post-war conditions. India could not expect to escape. India has in fact been fortunate that this change has not come to her so quickly or so severely as in many other countries, and owing to a succession of good harvests there is a reserve of buying power in the country. Nevertheless the process of adjustment is difficult and the condition of several of these industries will come before you. Public attention has recently been directed to the great cotton mill industry which after a period of unexampled prosperity and expansion is now experiencing a reaction. My Government has been watching

the position closely, and I have consented to receive a deputation early next week from the mill-owners of Bombay and Ahmedabad. In the circumstances I will reserve any further observations. Four reports by the Tariff Board, marked by that thoroughness which I have learned to expect from its work, have been published, and the conclusions of my Government on three of them have been made public. A fifth report dealing with steel has just been received and proposals in regard to it will be placed before you in the course of the Session. You will also be asked to consider a Coal Grading Bill framed on the recommendations of the Coal Committee and designed to rehabilitate Indian coal in overseas markets.

My Government, while giving due attention to industries in the restricted sense of the term, are determined, so far as circumstances permit, not to neglect the interests of what is really the greatest of all Indian industries, namely, agriculture. I know from my discussions with the Secretary of State that my Government can rely upon his most cordial support of this policy. The direct responsibility of the Government of India for agricultural development in the Provinces ceased with the inception of the Reforms. In view, however, of the paramount importance of agriculture as the basic industry of the people of India, of the improbability of Provincial Governments being in a position to undertake research on the scale required and of the necessity for co-ordinating activities in the wide field of agricultural development, the Central Government must continue to play an important part in agricultural progress. Their present agricultural policy is mainly directed to fostering research and undertaking work which is outside the normal ambit of Provincial activities by reason of its all-India character. With the improvement this year in our finances we have been able to increase very considerably our activities in the sphere of agriculture. The Agricultural Institute at Pusa is expanding its work of research, which is the basis and condition of all progress. That work has already borne remarkable fruit. New varieties of crops (I would instance sugarcane and wheat)—the product of careful research and experiment in our laboratories and experimental farms—have added within the past few years crores of rupees to the wealth of the agriculturist, and these achievements point the way to still more wonderful possibilities. Agriculture in India must in the main depend on cattle for its motive power, and what is of vital importance is not an increase in the numerical strength of cattle, but an improvement in quality. This problem is being steadily attacked from more than one angle in the cattle-breeding and dairy farms under the Government of India.

But apart from direct activities I conceive that one of the most important functions of a Central Government in respect of a great all-India interest is to facilitate the co-ordination of Provincial effort. My Government have for some time past had under consideration a proposal for the establishment of an all-India agricultural organisation which would help towards co-ordinating the activities of the various Provincial Departments of Agriculture, promote research, agricultural education, co-operation and other established aids to agriculture and serve as a medium for agricultural propaganda throughout

the country. With the object of obtaining the views of representative and responsible authorities from all parts of the country before a definite scheme is formulated, it has been decided to refer this proposal to the Board of Agriculture at its next meeting, which will be held at Pusa in December of this year. It is hoped that, in addition to the regular Provincial representatives, Ministers of Agriculture of the various Provinces will also be able to attend on this important occasion.

The action taken by my Government on the report of the Civil Justice Committee presided over by Mr. Justice Rankin will be a matter of interest to you. I have no doubt that many of you have studied that report and recognise the wide extent of the ground it covers. Many of the recommendations can be put into effect by Local Governments, High Courts and the presiding officers of the Courts of justice throughout the country. In some cases we have decided to reduce the proposals of the Committee to the concrete form of Bills which will come before you during this Session. In others we have addressed Local Governments and High Courts, and shall prepare Bills for your consideration after we have received their opinions. I have mentioned before the great importance which I attach to the work of this Committee and the value of the reactions which must follow on improvements in the machinery for the administration of civil justice. I wish now to express my high appreciation of the work which has been performed by the Chairman and members of the Committee and by the co-opted members, non-official as well as official.

Last January I announced that, in view of the opinion expressed in the Assembly regarding the need of an economic inquiry, my Government had decided to appoint a small Committee to report on the material which exists for holding an inquiry into the economic conditions of the people of India, the feasibility of instituting an inquiry of this character and the manner in which it could be carried out. This Committee has been at work during the last few months under the Chairmanship of Sir M. Vishveshvaraya and has just completed its report which is now in the press. It is the intention of Government to publish the report at an early date, and the Committee's recommendations will be examined without delay. I must express my appreciation of the expedition with which the Committee have dealt with this complicated subject.

When I addressed you last I dwelt at some length on the difficult questions of currency and exchange, and I announced the intention of Government to appoint an authoritative Committee to consider the subject of the rupee exchange as soon as world economic factors appeared sufficiently stable to justify formulation of a new policy. Since that time, although conditions are in some respects still obscure, there has been one event in this field of outstanding importance, namely, the return of England to the gold standard. With the return of sterling to a parity with gold there is fulfilled one of the most important conditions requisite for a fruitful re-examination of our Indian problems.

The position has been considered in consultation with the Secretary of State, and I am now able to announce that His Majesty the King has approved the appointment of a Royal Commission on Indian Currency. The terms of reference to the Commission will be—

“To examine and report on the Indian exchange and currency system and practice; to consider whether any modifications are desirable in the interests of India, and to make recommendations.”

It will be seen that the terms of reference are wide enough to admit the consideration of all important questions of currency policy, and that the membership of the Commission also ensures adequate representation of Indian opinion. I am glad to inform you that the Right Honourable Hilton Young will act as Chairman, and the following gentlemen have consented to serve as members of the Commission:—

Professor J. C. Coyajee,
 Sir Maneckji Dadabhoy,
 Sir Reginald Mant,
 Sir Rajendra Nath Mukherji,
 Sir Alexander Murray,
 Mr. W. E. Preston,
 Sir Henry Strakosch,
 Sir Purshotamdas Thakurdas, and
 Sir Norcot Warren.

The Joint Secretaries will be Mr. Aiyar of the Indian Finance Department and Mr. Baxter of the India Office. It will be apparent that every care has been taken to obtain an independent and impartial examination of this important subject. The Commission will, it is expected, commence work next October.

There is one other important inquiry to which I must refer. The Government of India recently appointed a Committee which has come to be known as the Indian Sandhurst Committee. The investigations of the Committee will embrace, not only the whole subject of the best and most suitable means of training Indians to hold worthy and efficiently His Majesty's Commission, but also the question of what measures should be adopted in order to attract the best type of Indian youth, in greater numbers than are at present forthcoming, to a military career. I attach great importance to the enterprise upon which the Committee are embarking. If they are successful, it may be said that they will, to the extent of their achievement, help India forward in the path of progress. The Committee is widely representative of different branches of Indian opinion, and I am glad to note that in this important inquiry we shall have the assistance of the leader of the Swarajist Party. I must express gratification that he is prepared to contribute to the elucidation of the problems involved, but I should not think of seeking to press the implication of his action further than he himself wished. His own statement of the reasons for the course he has adopted should in my judgment preclude any more extended inferences.

The establishment of a Public Service Commission is being actively pursued in correspondence with the Secretary of State, and I have every hope that it will shortly be possible to make an announcement detailing its functions, its constitution and its *personnel*. I am aware that great importance is attributed to the Commission both by the public and the members of the Public Services. I believe that it will confirm for the Services that sense of security in the conscientious discharge of their duties to which they are justly entitled, and that it will provide an independent and impartial tribunal for the examination of grievances. I believe also that it will be a visible and concrete guarantee of the principle, on which all good government is founded, that the ultimate object of administration is the interest of the State and the service of the public.

Among other matters of importance with which my mind was naturally much pre-occupied at the time of my departure for England, though even then I recognised and welcomed tendencies of a happier augury, was the situation relating to the religious endowments of the Sikh community, and the various issues connected with it; and during my absence I watched the progress of events with keen and sympathetic interest. It is a matter of great gratification to me that, on my return, I find that the hope of improvement in the situation has been realised or is in a fair way to be realised. During the whole course of the events and controversies which have engaged public attention and sometimes, I regret to say, disturbed the public peace in the Punjab, the Government of the Punjab and my own Government have been animated by a constant and single desire to promote by every means in our power a stable, an equitable and a friendly settlement of all the matters in issue, which shall do justice to the claims of all the interests legitimately concerned and which, in particular, shall restore the traditional relations of good understanding and mutual confidence between Government and the Sikh community. It is my belief that those relations, glorious in war and "no less renowned" in peace, whatever misunderstandings have arisen and whatever unfortunate incidents have occurred, have never in truth suffered more than a partial and temporary disturbance, and I welcome every prospect of their complete renewal and consolidation.

The immediate and tangible fruit of these changed conditions has been the enactment of a measure by the Punjab Legislative Council, on the motion of a private member belonging to the Sikh Community, and in the formulation of which the Punjab Government rendered assistance which has been warmly acknowledged, to regulate the management of the Sikh religious endowments. This measure has received so large, and I may say, so overwhelming a preponderance of support from the interests directly or indirectly concerned as to leave no doubt of its general acceptance and it has received the assent of the Governor General. The Government of the Punjab have taken the opportunity of the passing of this measure to make a generous offer to those persons under detention in that Province for certain offences arising out of the agitation, and I trust that wise counsels will prevail in regard to it.

I count as one of the palpable signs of a hopeful and auspicious future, the recent conclusion, with the co-operation and assistance in the necessary arrangements of the authorities of the Nabha State, of the ceremonial reading of the Sikh scriptures at the Gangsar Gurdwara in that State. The policy scrupulously observed by Government has been to interpose no obstacle, there or elsewhere, to the free observance of religious ceremonies in such manner as not to conflict with other well established rights and liberties. I will say no more on a subject which might revive old controversies than that I have every hope and confidence that, with the conclusion of the ceremony I have referred to and the release of persons detained in the Nabha State, we may all now unite to treat this incident as a closed chapter.

A Bill will be laid before you in the course of the present Session, the object of which is to validate such of the provisions of the Punjab Act as are beyond the competence of the local Legislature, and I am confident that a measure which offers so fair a prospect of a practical and equitable settlement of a momentous and complex issue and which is supported by so weighty a body of public opinion will receive also your ratification and endorsement.

Much has been achieved, and we may survey with legitimate satisfaction the progress recorded, rendering due acknowledgments to the sympathetic consideration and the indefatigable labours of His Excellency Sir Malcolm Hailey and the Government of the Punjab, and to the common-sense, mutual forbearance and public spirit of all concerned which have made it possible. I trust that your deliberations will complete a legislative act which will not only afford a just and satisfactory solution of the matters it expressly contemplates, but will also contribute powerfully to the re-union and reconciliation of diverse aims in other spheres of interest which we all have equally at heart. If we persevere and redouble our efforts in the path of mutual forbearance and understanding, I have every confidence that the future will crown our labours.

This concludes my observations on a review of affairs in India as I find them on my return. My main purpose in requesting your attendance to-day was in order that I may address you specially upon the events connected with my visit to England. When I received the invitation from His Majesty's Government to return to England, I gladly availed myself of it. I had been in India over four years and had seen several changes of Government in England during this short period. A General Election in the Autumn had just installed a new Government in office—the fifth with which I have had the privilege of serving. It seemed to me eminently desirable in the interests of India, that I should take the opportunity for the first time afforded to one holding my high office. During my stay in England I had many conferences and discussions with the Secretary of State, and I also had the great advantage of representing the situation in India, as I conceived it, to the Prime Minister and also to the Cabinet. Towards the end of my visit the Secretary of State made an important pronouncement in the House of Lords upon Indian affairs. The speech undoubtedly aroused unusual interest in Parlia-

ment and the country. It was the first review by the secretary or state of the general situation in India since he had assumed his high office, and it had been deferred until after the conclusion of the conferences with me. In addition, it possessed a special attraction by reason of the forceful personality and intellectual capacity of the Secretary of State. You will have observed that His Lordship was careful to state that he was not announcing, or purporting to announce, decisions or conclusions. Nevertheless, it cannot be doubted that his survey of the situation formed an important event in the history of political development in India. It was made after careful study of the problems and after full consideration of the views which I had presented in numerous conferences as the result of my experience in India. The speech in the House of Lords was followed almost immediately by a debate in the House of Commons. I do not know whether many of you have had the opportunity of studying the report of the debate, which was of special interest to India. It showed, as it appeared to me, a growing appreciation and a sympathetic understanding of the complexities and difficulties of Indian political problems. You will have gathered from the Parliamentary reports that the general lines of the pronouncement were not seriously challenged in the British Parliament. I confess that I have therefore been somewhat disappointed, on a perusal of reported speeches of political leaders in India and of articles in the public Press, to find that the speech has been received in some quarters in so critical a spirit. The impression on my mind is that its importance and value to India have not been sufficiently appreciated. I look upon the Secretary of State's address as a message of sympathetic encouragement to India, at least to those who are desirous of advancing to responsible self-government within the British Empire. It is an emphatic indication that political opinion in England stands firm upon the declarations made in 1917 and in 1919 without distinction of political parties.

I shall endeavour to place before you a survey of the situation as it presents itself to me to-day. I trust I am not too optimistic in my belief that a temperate examination of the problems in an atmosphere free from suspicion and prejudice may lead to more earnest and sincere co-operation and good-will from Indian politicians. I cannot hope to convince all sections of those who take an interest in public affairs. But if we are to advance towards a solution of our problems, we must get rid of the elements of bitterness and suspicion, which breed their evil progeny alas! too rapidly, and try whether the spirit of good-will may not prove a solvent for difficulties which have hitherto seemed to defy solution.

I would ask those who may differ from me to bend their minds for a moment towards me, and to weigh observations based upon the experience of a life-time and applied to Indian affairs by one who claims to be devoted to India and her interests.

I came to India charged with the duty of helping to establish the Reformed Constitution and of assisting the country along the road of advance mapped

of the new policy had been embodied in an Act of Parliament. It was unfortunate that this new system was launched at a period when the atmosphere was charged with bitterness and animosity. It is unnecessary to recapitulate the difficulties it encountered from the moment of its birth. They are still fresh in our minds. It suffices for the moment to recall that it met with determined opposition from certain sections of the community, directed at first from without the Councils and latterly also from within. Remember that this was a newly-fashioned Constitution—indeed a constitutional experiment without precedent—designed to meet the peculiar complexities of the situation in India. It had no doubt its imperfections, but it was the product of deep thought and the outcome of a genuine desire on the part of the British Parliament to give effect to the patriotic aspirations of Indian political leaders and to initiate a system of self-governing institutions. Much of the criticism directed against the Constitution was clearly in the nature of a protest against the refusal to grant complete self-government at one step. But the ranks of the critics were also swelled by those who argued that the system did not fulfil the intentions of its authors and suffered from obvious defects which should be removed. These charges deserved examination, and after three years' experience of the new Constitution my Government, with the approval of His Majesty's Government, decided that inquiry should be made not with a view to altering the structure, but for the purpose of determining whether any measures could be devised whereby the system might work more smoothly and efficiently. These problems were examined by the Reforms Inquiry Committee, to whose labours both my Government and all those who are interested in the working of the Constitution owe a debt of gratitude. I regret that the members of the Committee were unable to come to unanimous conclusions. The Majority have made a series of recommendations which taken broadly appear to be acknowledged as suggesting improvements on the existing practice. They are fashioned with a genuine desire to improve the present machinery. I do not of course claim for them infallibility or deny that they must be examined in detail with some care. My Government are prepared to accept in substance the view of the Majority that the Constitution should be maintained and amended where necessary in order to remove defects in its working on the lines recommended by them. My Government cannot at present commit itself to all individual recommendations or to the form or method by which they should be carried into effect, inasmuch as there has not been sufficient time for full consideration of them with the authorities concerned, or even by me with my Council. An opportunity will be afforded to the Legislature for debating this policy and every consideration will be given to the views presented to us before final conclusions are reached.

The Minority, consisting of gentlemen whose views are entitled to receive, and have received, the most careful examination of myself and my Government and—let me add—of Lord Birkenhead, have stated that they have no objection to many of the proposals of their colleagues, but they were unable to accept the report of the Majority because they desire to progress more rapidly and by different methods. In their opinion no substantial results will be produced

by the process of amendment of defects recommended by the Majority. Briefly, the Minority ask whether the Constitution should not be put on a permanent basis with provisions for automatic progress in the future, and they are in favour of a system of Provincial autonomy. They press for an early inquiry with a view to fulfilling these aspirations. To the subject of Provincial autonomy I shall return later. It is sufficient to say at this stage that the Minority, mindful of the terms of reference, do not present it as a practical and fully considered scheme, but content themselves with putting it forward as an ideal. The steps for its attainment clearly demand further investigation. In effect therefore the recommendations of the Minority amount to a demand for an early and authoritative inquiry with a view to a revision of the Constitution. The issue at the moment between them and the Government of India is largely one of time for the appointment of a Commission. It has been laid down in the Government of India Act that in 1929, that is in four years from the present time, there must be a full inquiry into the Constitution such as the Minority desire. But the Minority say that they wish the inquiry to take place at an early date. I understand their impatience, but my Government and I, after most carefully weighing their views, have reached the conclusion that the moment for an inquiry has not yet arrived.

The inquiry contemplated by the Act will be a genuine and an impartial inquiry. Nothing will be prejudged. It will proceed upon the facts of the situation as ascertained upon the evidence produced to the tribunal. And here I must remind you of the words of the preamble to the Government of India Act, which have already been quoted by the Secretary of State: "And whereas the action of Parliament in such matters must be guided by the co-operation received from those on whom new opportunities of service will be conferred, and by the extent to which it is found that confidence can be reposed in their sense of responsibility." If those are to be the principles to guide the Commission to its judgment, I cannot think, as a friend of India, that it should commence its inquiries immediately. If the judgment of the British Parliament were to be pronounced upon the present evidence, I fear that it could but result in disappointment. I have not abandoned hope that as the days proceed evidence of a spirit of co-operation may yet be forthcoming from that large section of political opinion which has hitherto stood aloof, and that it may be manifested that the political attitude of those who have hitherto declined to shoulder any responsibility may undergo a change. I know that there is a school of thought in India which presches incessantly that nothing is to be won from England save by force or threats. Believe me, that is a profound mistake, and if persisted in, cannot but embitter the relations of the two countries. The Reforms took their origin in England in a spirit of good-will, not of fear, of optimism, not of opportunism. The history of the last few years has damped the hopes and dimmed the expectations of many of those in England who wish India well. But those hopes can be rekindled, those expectations can be recreated, if India shows the hand of friendship instead of menace.

But while I am sure that the present would be a most inappropriate moment to hold the statutory inquiry, I wish to re-emphasise what was made abundantly plain by the Secretary of State in his speech that there is no special sanctity attaching to the year 1929. The re-examination of the Constitution may take place at any time, not later than 1929, when the British Government are persuaded that there has been genuine co-operation of the responsible Indian political leaders in working the existing Constitution, and when sufficient experience of these new and still largely untried conditions has been gathered to form the basis of a considered judgment and to enable proposals for the future to be made with some confidence. Is it not worth while to make a real attempt to wipe out past controversies and to unite in an effort to test the system at present established? In the Secretary of State's words—"We desire and request good-will, nor shall we be niggardly bargainers if we meet with that generous friendship which is near and dear to our hearts." The desire to help India along the road indicated remains unchanged throughout General Elections and new Administrations. I had opportunities of discussion with many leaders of political thought in England of varied political views. Throughout I was impressed on the one hand by the sympathetic good-will manifested towards India and Indians generally, and on the other, by the determination not to be hurried by threats into premature concessions. I have long been confident that it is through friendly co-operation alone that India will advance to the ultimate goal desired. The events of the recent years and my visit to England have served to confirm this view. I most earnestly commend it as a policy to the Legislature and to the country.

I believe that the present moment is specially favourable for a combined effort to work the Constitution. Since the Committee reported, two new factors have supervened which should be an encouragement to a new departure, and are well worthy of your consideration. Among the many handicaps under which the new system has suffered, none perhaps was greater than the financial stringency which dogged its early years. In administration a policy without resources is barren. Too often the Ministers found that from lack of money they could not give effect to their ideas in the field of government transferred to their charge. Hampered by financial difficulties they were exposed to the criticism of having achieved nothing. Fortunately, the period of financial stringency, the legacy of the War, seems to be passing away. This year my Government has been able to make a notable beginning in the remission of Provincial contributions, and thereby to place at the disposal of various Provinces additional resources, a large part of which it may be hoped will be available for the amelioration of social conditions and for nation-building activities—in short for those branches of the administration which have been transferred to popular control. I trust that these new resources will strengthen the position of Ministers.

There is one other change of importance which I must not omit to mention. I confess I have been surprised to find that so little public attention has been directed to one of the proposals of the Lee Commission, the practical effect of which will soon begin to make itself felt. It had been one of the complaints

of Ministers that the organization of their superior services through which their departments were administered lay not in their hands, but in those of the Secretary of State. It was the latter who recruited them, and who determined their rates of pay and their numbers. We are now taking steps to give effect in this respect to the principle laid down by the Joint Select Committee of Parliament, that Ministers should have the fullest opportunity of managing that field of government which was entrusted to their care. Recruitment by the Secretary of State for the Indian Educational Service, the Indian Agricultural Service, the Indian Veterinary Service, the Buildings and Roads Branch of the Indian Service of Engineers and in Bombay and Burma for the Indian Forest Service has ceased. In these important branches of the administration the Ministers will be authorized to start building up by new recruitment their own Provincial Services, subject only to such restrictions as experience shows to be necessary for safeguarding the integrity, the independence and the efficiency of Public Services. The problem presented by the Indian Medical Service is more difficult, but here too the principle of establishing Provincial Medical Services has been accepted, subject to certain conditions which are still under consideration. The combined effect of these changes will become increasingly apparent every year, and I am sure that what seems to me at present to be an inadequate appreciation of their importance will rapidly disappear. I cannot pass from these observations on the future of the Services without placing on record my high appreciation of the loyal assistance which has been rendered by the members of the Services and will, I am convinced, continue to be rendered in the working of the new Constitution. Without their help, difficulties already serious enough would have been stupendous, if not insuperable.

For the reasons indicated above, I believe that the system of Dyarchy will be found to work in future more efficiently and smoothly, and Ministers will in these respects no longer have the semblance of ground for complaint that the power and responsibility entrusted to them are impaired by other influences. In any event, I have no doubt it is too early yet to pronounce a final verdict as to failure or success. On a careful survey of the whole situation and study of the reports of the Local Governments I come to the conclusion that Dyarchy, whatever its deficiencies may be, has so far proved more successful in its operations than some of its friends and most of its critics could have expected. We shall be in a far better position and in a comparatively short time to form a final judgment, if the system is worked in the future with general good-will and co-operation.

In a notable passage in his speech Lord Birkenhead disclaimed on behalf of the British Parliament any monopoly in the art of framing Constitutions and he invited Indians to contribute, if they could do so, their own solution. He invited them—to quote his words—“to produce a Constitution which carries behind it a fair measure of general agreement among the great peoples of India.” He gave the assurance that such a contribution to our problems could nowhere be resented, but would on the contrary be most carefully

examined by the Government of India, by himself and by the Commission whenever that body may be assembled. The time which may elapse before re-examination of the Constitution, whenever that may happen, could not be better occupied by public men in India than by devoting serious practical thought to these problems. The British people, working on their own experience, have set up institutions in India based on Western models. The aspirations of Indian politicians, as I understand them, are directed towards the establishment of responsible self-government within the Empire as the ultimate goal. Responsible self-government based on Parliamentary institutions is the product of Western thought and experience. It is often contended that we are seeking to arrive at the final destination by imposing ideas on India which are alien to its genius. We are not wedded to our own particular methods of attaining our object. Whatever may be proposed will be the subject of most careful examination by the Government of India, and eventually by the Commission before it is submitted to the British Parliament. The Commission should know whether there is any general consensus of opinion among the various classes and communities of India as to the direction in which the development of self-government within the Empire should be sought. Should we persevere in our proposed course or is there an alternative line of advance which would be more in accordance with Indian ideas and would receive the support of the numerous interests concerned? If any alternative methods are to be suggested, much hard thinking is required. Constitutional problems are not solved by a phrase. Account must be taken of unparalleled complexities—diversities of race, diversities of religion, striking diversities of intellectual development and a social organisation which separates classes with a rigidity unknown in any other great country. It must be kept steadily in mind that it is a primary duty of Government to provide security against external aggression and to preserve peace and order within its territories, and in India it is imperative that adequate means should be devised for the protection of Minorities. No greater problem in self-government has ever been set before a people. No problem has ever more assuredly required accurate and practical thinking.

There are many in India at the present moment who hold the solution lies in Provincial autonomy. The principle that local affairs should be administered by Local Governments is one that commands general acceptance. But if we are to avoid disintegration—a danger that the history of India constantly emphasises—there must, in my judgment, be a strong Central Government capable of exercising a legitimate degree of supervision and control. The relations of such a Government to a number of so-called autonomous Provincial Governments have not yet been thought out. It can scarcely be contemplated even by the most ardent friends of Provincial autonomy that there should be nine or more, and as some contend many more, separate and independent Provincial Governments entirely free in all directions from supervision and control. Before any scheme of Provincial autonomy could be established, the functions that should be entrusted to them and the degree of supervision and control to be exercised over them must be

explored with patience. Here is an unlimited field of work waiting for those who, like the Minority of the Reforms Inquiry Committee, believe that the present Constitution must be radically amended. Meantime close contact with the practical working of the present machine will provide a useful corrective against too great an obsession with theory, which history shows to be a danger ever lurking in wait for the drafter of Constitutions.

Before I close I would draw attention to an attitude not uncommon among politicians that the programme and conditions of advance laid down in the preamble of the Government of India Act are a humiliation to India in that the prescription of successive stages and the testing of each stage by results is a reflection on the capacity of Indians. Be it remembered that we are engaged on a problem new to India and new also to the British Parliament. I think the nature of the problem as it presents itself to the British people is not fully appreciated by those who express themselves as humiliated. They assume that the path to self-government lies along a broad metalled road, and that if they could only be freed from the impediments and restrictions imposed by the present form of government, they could run safely, rapidly and directly to their goal. To my mind the problem presents itself under a different figure. I think rather of a man picking his way through unexplored regions towards his destination which glimmers faint, but clear in the distance. He halts on firm ground and seeks the next spot to which he can safely entrust himself. A rash step may engulf him or delay his progress indefinitely. His advance may not be rapid, but it is well and surely planned. As he advances, experience teaches him to distinguish more certainly and quickly the firm ground from the treacherous surface. And so he wins to his ultimate goal.

Gentlemen, if I may strike a personal note, the natural term of my period of office is rapidly approaching, and my future opportunities of addressing you, the Members of the Indian Legislature, must necessarily be few. I have spoken to you to-day from the conviction of my heart—I trust without rousing a tinge of bitterness or animosity. I have expressed to you the thoughts of one who, whatever mistakes or errors he may have committed, has a warm affection for India and a deep devotion to her interests. For these reasons I have been desirous of carrying you with me along the only avenue which, in my judgment, can lead to the Promised Land—to the proud heights of India's destination. It is my earnest prayer that India, with the co-operation of all of us—of every race, community and interest—that wish her well, may avoid the pitfalls that beset her path and win through to the goal to which her fate is set.

APPENDIX VII.

PRESS COMMUNIQUE AND CORRESPONDENCE REGARDING INDIANS IN SOUTH AFRICA.

GOVERNMENT OF INDIA.

DEPARTMENT OF EDUCATION, HEALTH AND LANDS.

(Overseas.)

Simla, the 23rd April 1926.

Press Communiqué.

On February 17th last the Government of India published the correspondence which had passed between them and the South African Government since April 8th, 1925, regarding the Indian question in South Africa. The papers then published showed that the Government of India, being gravely concerned at the series of ordinances curtailing Indian civil and economic rights and privileges recently passed in South Africa, took the initiative in suggesting a conference between their representatives and representatives of the Union Government as a preliminary to the formulation of a comprehensive Indian policy in South Africa which would afford an acceptable solution of the whole question. The Union Government, however, saw difficulties in the way of accepting this suggestion and decided that a preferable course was to put forward in the form of a bill the alternative proposals for dealing with the Indian question which they favoured. This bill, which is known as the Areas Reservation and Immigration and Registration (Further Provision) Bill, was introduced into the House of Assembly last July. In order to place the Government of India in a position to appreciate the circumstances which had led up to the bill and to make representations regarding it with special reference to the general question of alleviating direct competition between Asiatics and Europeans, they agreed that the Government of India should send a deputation to South Africa to enquire into and report on the economic condition and general position of the resident Indian community in South Africa and to form an appreciation of their wishes and requirements. The deputation sailed on November 25th, 1925, and its preliminary report was received in India early in January. On the basis of the facts disclosed in that report, the Government of India felt justified in renewing their proposal for a round table conference and pressed that, if that proposal was still unacceptable there was a case for a fresh enquiry before the proposed legislation was proceeded with. Neither of these suggestions commended themselves to the Union Government, who, however, expressed their willingness to give the Government of India an opportunity of placing the case of the

Indian community in South Africa fully before them by offering to take the course of proposing the reference of the Areas Reservation Bill to a Select Committee before, instead of after, the second reading, in order that the Indian objections to the Bill might be heard in respect of its principles as well as of its details. This offer the Government of India accepted, and their deputation appeared before the Select Committee early in March and presented the Indian case against the Bill on broad grounds of principle. In the meantime it appeared from the report of the speech in which the Minister of the Interior had moved that the Areas Reservation Bill be referred to a Select Committee that the Union Government were possibly under some misapprehension regarding the attitude of the Government of India towards a round table conference. They therefore again addressed the Union Government pointing out that they were as anxious as ever to participate in a round table conference and had no desire to limit the scope of its discussions in the manner which the Minister seemed to suppose. In reply to this communication the Union Government stated that they were prepared to take such steps as were still at their disposal to keep the door open for a further consideration of the Indian question provided that they had an assurance of the probability that the problem would be really and effectively solved through the instrumentality of a conference. This evidence that the Union Government were no longer averse to the idea of a Conference on certain terms was welcomed by the Government of India who expressed themselves as equally anxious that the conference, if arranged, should not prove abortive and pressed the view that the right method of arriving at a real and effective solution of the Indian question would be for both parties to enter the conference without being committed in advance to any particular solution of the questions at issue. They suggested that the Union Ministers might confer informally with the Leader of the Indian deputation in order to ascertain whether the obstacles in the way of a conference could not be overcome. The suggested conversations took place at Capetown early in April and resulted in a better understanding and appreciation of the respective points of view and difficulties of the two Governments. The Union Government have impressed upon the Government of India that public opinion in South Africa would not view with favour any settlement which did not hold out a reasonable prospect of safeguarding the maintenance of western standards of life by just and legitimate means and on this basis have agreed to enter a conference the recommendations of which will be subject to confirmation by the Governments of both countries. They have also agreed, subject to the approval of the Union Parliament, to postpone further progress with the Areas Reservation Bill until the results of the conference are available. The basis on which the conference will be held is embodied in the following formula which has been accepted by both Governments:

"The Government of the Union of South Africa and the Government of India have been further in communication with each other regarding the best method of arriving at an amicable solution of the Indian problem. The Government of the Union have impressed upon the Government of India

that public opinion in South Africa will not view with favour any settlement which does not hold out a reasonable prospect of safeguarding the maintenance of Western standards of life by just and legitimate means. The Government of India are prepared to assist in exploring all possible methods of settling the Asiatic question and have offered to enter into a conference with the Union Government for the purpose. Any proposal that the Conference might make would be subject to confirmation by the Governments of the two countries. The Union Government have accepted the offer of the Government of India, and in order to ensure that the conference should meet under the best auspices, have decided, subject to the approval of the Select Committee and Parliament, not to proceed further with the Areas Reservation and Immigration, and Registration (Further Provision) Bill until the results of the conference are available."

It is anticipated that the Conference will take place before the end of the year. The Indian deputation whose action has largely contributed to the better understanding of the problem on both sides, which is reflected in the present position of the question, will sail from Delagoa Bay on April 28th by the S.S. "Karapara."

FURTHER CORRESPONDENCE BETWEEN THE GOVERNMENT OF INDIA AND THE GOVERNMENT OF THE UNION OF SOUTH AFRICA REGARDING THE POSITION OF INDIANS IN SOUTH AFRICA.

(20)

Telegram to the Governor-General of South Africa, Capetown, No. 135-Uz., dated Delhi, the 20th February 1926.

Government of India understand from reports which they have received that the Minister of Interior in his speech moving that the Areas Reservation Bill be referred to Select Committee before second reading stated that the Government of India had been informed by the Union Government that, while they were not opposed in principle to a Round Table Conference, the discussions must include question of ways and means required to make the scheme of voluntary repatriation of Indians more effective. Had Government of India agreed to this point being included in agenda Round Table Conference would have been held. But as we did not see our way to agree to discussion of this particular point, Union Government could not agree to conference.

2. If Dr. Malan has been correctly reported, we fear that there has been some misunderstanding regarding our attitude on this point. In our telegram, dated October 9th, we made it clear that a conference of which the main object was to expedite Indian repatriation was not contemplated by us. We nevertheless indicated that we were prepared to discuss the working of the existing system of voluntary repatriation and maintained the same attitude in subsequent communications. We have never refused to include the question of repatriation as above described within the scope of discussion of pro-

posed conference. We are as anxious as ever to participate in a Round Table Conference which would include repatriation question limited as above stated within its scope.

3. We should be very grateful if Minister of Interior would take an early opportunity of dispelling the misconception to which, we fear, his speech may have given rise. We understand that the "Cape Times" in a leading article on February 18th has already taken the point that the attitude of the Government of India in refusing to discuss voluntary repatriation made the holding of conference impossible. We are most anxious to secure an unprejudiced reception for the statement which our representatives will shortly make before the Select Committee and are confident that Your Excellency's Ministers will understand our desire to remove any misapprehension which might possibly prejudice public opinion against the case which they will present.

(21)

Telegram from the Governor-General of South Africa, Capetown, dated the 10th (received 11th) March 1926.

Your telegram dated 20th February. 135-Overseas. My Ministers desire to state that in their opinion no discrepancies exist between the statements of the Minister of the Interior in the Assembly to which you refer and the actual course of negotiations as revealed in the published correspondence.

Reference to my telegrams dated 16th June 1925 and 24th September 1925 must in their view remove all possible doubts. It was clearly the attitude of the Union Government that no conference, however restricted in scope, was possible unless some definite prospect was held out beforehand that it would result in a considerable reduction of the Indian population. They further clearly intimated that they welcomed tentative and provisional proposals to this effect and that their attitude with regard to holding of a conference would eventually depend upon the nature and practicability of any repatriation scheme offered as a basis for further discussions at such conference. They even went so far as to suggest the particular form of additional inducements which, with the assistance and co-operation of Government of India, might be offered to Indians as a part of such repatriation scheme besides agreeing to inclusion of at least one other important aspect of Indian problem which had been put forward by your Government within range of proposed conference.

It was only after the Government of India had intimated in your telegram of 9th October 1925, that they did not intend to explore possibilities of more effective repatriation with the object of bringing about a considerable reduction of the Indian population but wished merely to confine themselves to helpful suggestions in connection with the existing repatriation (scheme?) that further attempts on the part of Union Government to arrive at a satisfactory basis for a conference were dropped. My Ministers accept the assurance expressed in the second paragraph of your telegram that the real

attitude of the Government of India has been misunderstood by them. They also note that according to Your Excellency's telegram, dated the 26th November 1925, it was clearly the intention of that Government to put forward definite proposals in connection with repatriation after they had considered report of their deputation to the Union. Under these circumstances my Ministers wish to assure the Government of India that, provided they could be made to feel that they have the necessary assurance of the probability that the problem will really and effectively be solved through instrumentality of a Conference thus affording them a real basis for consenting to a round table conference, they are prepared to take such steps as are still at their disposal to keep the door open for a further consideration of the question.

They trust that the Government of India will realize that the progress of the Bill through Parliament cannot be held up unless such action can be clearly justified to Parliament and in the eyes of the people of South Africa by nature and adequacy of the assurance given and therefore unless Ministers are enabled to point to some very definite and substantial prospective results to be anticipated from proposed Conference they cannot contemplate the possibility of agreeing at this stage to holding of such a Conference.

The Government of India will therefore understand that the assistance so far offered by them in connection with the system of repatriation at present obtaining is for the purpose of formulating a satisfactory basis for a Conference altogether inadequate.

(22)

Telegram to the Governor-General of South Africa, Capetown, No. 257-Os., dated the 26th March 1926.

Your telegram dated March 10th. We have not yet seen text of speech delivered by Minister of Interior on February 17th, and are therefore glad to receive assurance from Your Excellency's Government that it was in no way discrepant with the actual course of negotiations.

2. Your Excellency's telegram makes it clear to us that Union Government are not averse to idea of a conference provided that they are satisfied that such conference will hold out definite prospect of leading to real and effective solution of Indian problem. We appreciate desire of Your Excellency's Ministers to obtain assurance on this point and to find a formula acceptable to your Government and mine as basis of Conference which would enable discussions to be initiated. We ourselves are equally anxious that if a conference takes place, it should not prove abortive or lead to misunderstanding and it is with this object in view that we desire that there should be no misapprehension about our own attitude. As we explained in our telegram of October 9th, we are unable to agree to enter a conference of which the object would be to effect a considerable reduction of the Indian population and we still adhere to this opinion. In our view the right method of arriving at a real and effective solution of the Indian question would be

for both parties to enter the conference without being committed in advance to any particular solution of the questions at issue. We ourselves should enter such a conference with the sincere intention of discussing frankly with the Union Government all possible methods of settling the Asiatic question, of understanding the difficulties which have led to the present policy of South African Government and of explaining our own difficulties in acquiescing in that policy and the objects which we have in view. In the atmosphere of better mutual understanding which we believe this exchange of views will establish, we are hopeful that agreement may be rendered possible as to general lines on which question can be finally settled.

3. As preliminary step we would suggest that Union Ministers might consent to confer informally with Leader of our deputation with a view to ascertaining whether obstacles in way of conference cannot be overcome. We cannot of course agree to invest Paddison with plenipotentiary powers to act on our behalf and any arrangement suggested after consultation with Your Excellency's Ministers would be subject to our confirmation after receipt by us of his report and after discussion with him. We are impressed with difficulty of arriving at understanding by telegraphic correspondence and it is on this account that we propose personal discussion and have always held that conference affords most hopeful method of dealing with this question.

4. In the event of agreement being reached regarding Conference, meetings between representatives of this Government and of Union Government might conveniently be held, either formally or informally, at time of meetings in October next of Imperial Conference or, if necessary, at an earlier date. We assume that progress with regard to pending legislation would be held up until Conference has had opportunity of discussing question in all its bearings.

(23)

Telegram from the Governor-General of South Africa, dated the 15th received 14th) April 1906.

In reply to your telegram, dated 26th March, 257-Os., my Ministers desire to inform Government of India that in compliance with their request the Prime Minister and the Minister of the Interior have informally conferred with Mr. Paddison, Leader, and Mr. Bajpai, Secretary, of deputation and that conversations have undoubtedly resulted in a mutually better understanding and appreciation of respective points of view and difficulties of the two Governments.

2. My Ministers do not consider the divergence in point of view or the difficulties so great that it should be deemed impossible to find a satisfactory basis for formal conversations, which might lead to an amicable settlement, as long as it remains understood that such conversations shall on both sides be entered into and conducted with sincere desire and intention to co-operate in finding a real and effective solution of the Indian problem. Any conference which could justly be interpreted as a mere attempt from outside to

prevent the Union Government from dealing with its own problems in its own way will be resented by the people of South Africa and is and will continue to be unacceptable.

3. As was pointed out in previous correspondence, the European community in South Africa consider that their economic position and civilization are seriously menaced by the presence and unfair competition of Asiatics and the demand on their part that steps shall be taken without delay to counteract that menace is insistent and practically unanimous. This fact has been corroborated to fullest extent by evidence laid before the Select Committee. My Ministers therefore wish to impress upon the Government of India that public opinion in South Africa will not view with favour any settlement which does not hold out a reasonable prospect of safeguarding the maintenance of western standards of life by just and legitimate means. If the Government of India could accept this presentation of position as the correct one and could further express their willingness to assist in exploring all possible methods of settling the Asiatic question, the Union Government will be ready to accept their offer to enter into a Conference for the purpose. Any proposal which such a Conference might make would be subject to confirmation by the Governments of the two countries.

4. In order to ensure that the Conference, if finally agreed upon, should meet under best auspices my Ministers have decided, subject to the approval of the Select Committee and Parliament, not to proceed further with the Areas Reservation and Immigration and Registration (Further Provision) Bill until results of Conference are available.

5. Should the reply of the Government of India be favourable and final agreement in regard to the holding of a Conference be reached my Ministers suggest such agreement shall be embodied in following terms which could form basis and be included in any official public statement to be made at a later date: "The Government of Union of South Africa and Government of India have been further in communication with each other regarding the best method of arriving at an amicable solution of Indian problem. The Government of the Union have impressed upon Government of India that public opinion in South Africa will not view with favour any settlement which does not hold out a reasonable prospect of safeguarding the maintenance of western standards of life by just and legitimate means. The Government of India are prepared to assist in exploring all possible methods of settling Asiatic question and have offered to enter into a Conference with the Union for the purpose. Any proposal that Conference might make would be subject to confirmation by the Governments of the two countries. The Union Government have accepted offer of Government of India and in order to ensure that Conference should meet under best auspices have decided, subject to approval of Select Committee and Parliament, not to proceed further with Areas Reservation and Immigration and Registration (Further Provision) Bill until results of Conference are available."

6. With a view to the limited time of Select Committee and in order that they may be enabled to make the necessary recommendation my Ministers will be glad to be favoured with an early reply.

(24)

Telegram to the Governor-General of South Africa, Capetown, No. 277, dated the 17th April 1926.

Your telegram dated April 13th. We learn with great satisfaction that conversations between Your Excellency's Ministers and the Leader and Secretary of our deputation have led to a better understanding and appreciation of the respective points of view and difficulties of the two Governments and that as a result of them, Union Government are prepared to enter into a Conference with us with object of exploring all possible methods of settling Asiatic question in South Africa consistent with maintenance of western standard of life. We have constantly affirmed our belief that Conference affords most hopeful method of dealing with this question, and we gladly therefore accept the proposal which is now made to us. The terms in which it is proposed to embody the agreement to hold a Conference afford, in our opinion, a suitable basis for its proceedings, and have our complete concurrence. We accept the statement of Your Excellency's Government that public opinion in South Africa would not view with favour any settlement which does not hold out a reasonable prospect of safeguarding the maintenance of western standards of life by just and legitimate means, and for our own part, will enter the Conference with the sincere desire of co-operating with Union Government in finding a solution of the Asiatic question which can be honourably accepted by the Governments and peoples both of South Africa and of India. We agree further that it is essential that any proposals that the Conference may make should be subject to confirmation by the Governments of both countries.

2. It is understood that in presenting the report of the Select Committee on the Areas Reservation Bill, Minister of Interior will announce the agreement that has been arrived at between the two Governments and will move that Parliament should not proceed further with the Bill until result of Conference are available. We should be glad to know on what date this announcement will be made in order that we may arrange for simultaneous publication in this country.

APPENDIX VIII.

CONCLUSION OF SIR CHARLES INNES' SPEECH ON THE RAILWAY BUDGET.

There are many other subjects mostly of an administrative or technical character on which I am tempted to dwell; but I am afraid of wearying the House and I will bring my speech to a close. But before I sit down, I should like, if the House will allow me, to indulge in a brief retrospect. This is the last Railway budget that I shall defend in the Indian Legislature, and it is natural that I should look back over the five years with which I have been connected with Indian Railways. My first year 1921-22 was one of the most disastrous years in the history of the Railways. For the first time since 1908 they had failed to pay their interest charges; indeed, the net loss of the year amounted to the enormous sum of 9 crores of rupees. There was much to be said in excuse for the Railways. They had rendered magnificent service during the war. Shortage of tonnage had thrown on them an immense amount of traffic which formerly had gone by sea, and their resources had been strained to the uttermost. At the same time, material and rolling stock had been hard to obtain, and the railways had emerged from the war in a sorely battered, dilapidated condition. No money had been laid aside to meet arrears of depreciation, or rather the sums which had been earmarked for the purpose had under stress of necessity been diverted to other objects. And though in the years immediately succeeding the war, the Government of India, in spite of the desperate condition of their own finances, endeavoured to make liberal provision for what was then known as programme revenue expenditure, yet under the system then prevailing the Railways could not make the best use of the moneys placed at their disposal. For the grants were annual grants, Balances unspent at the end of the financial year lapsed, and it was impossible for Railways to work to a well-thought out programme of rehabilitation, spread as such a programme must be spread over a period of years, for the amount of money which could be spared each year by the Government of India for programme revenue expenditure necessarily varied with the general financial position of the Government of India. We were told by the Acworth Committee that rehabilitation was the first task before us and that new construction could not be thought of, and I remember well what a hopeless task rehabilitation seemed in those days. I am happy to think that they have gone, never I hope to return, and I think that we may contrast the condition of our Railways now with their condition 4 years ago with legitimate satisfaction. The money we have spent on them is beginning to bear fruit. The coal trade is an obvious example. Every industrialist in India must remember the scramble for coal wagons at the end of the war and in the years immediately following and the constant

anxiety lest he should have to close his works for lack of coal. Now we have been able entirely to abolish any form of control over wagon supplies, and however necessary that control may have been, I frankly admit that in itself it was an evil. Our Railways now can carry all the coal traffic that offers; indeed, they ask for more. And as with coal, so with our other staple trades. I do not claim that our Railways are perfect. Far from it. Much remains to be done. But I do believe that now they are better equipped to serve the commerce and industry of India than at any previous period of their history. Many factors have combined to bring about the improvement. Much work has been put in in improving the track, in strengthening bridges, in putting in more crossing stations and in remodelling stations. Train control has been extended, our internal organisation has been improved by the introduction of the divisional system, and better statistics enable the Agent to watch the working of almost every department of his Railway. Our rolling stock is more adequate and in better order. But the most important thing of all is that Railway Administrations are in better heart because they are working under a reasonable system of finance. The Depreciation Fund is a safeguard against the return of conditions which prevailed in 1921-22. Agents can now look ahead. They can work to an ordered plan, and they have a real incentive to economy. The improvement in our financial position is, indeed, most striking. It is just 3 years since we received the report of Lord Inchcape's Committee. They set before us the standard that we should aim at yielding a return of 5½ per cent. on our capital, and they calculated that if we did so, there would be a net gain to the State of roughly 8½ crores from its Railway property. But this was the figure at which they thought we should aim. They did not regard it as a result which could immediately be realised. On the contrary, under the proposals they made for the postponement of expenditure and for retrenchment in the year 1923-24, they calculated that the Railways should make a net return of 4 crores of rupees to the State. The actual net gain we made in that year was nearly 6½ crores. In 1924-25 our net gain, after eliminating certain adventitious gains due to refund of customs duty and after taking into account the loss on strategic lines, amounted to 11.7 crores, while in the current year we estimate that it will amount to about 9 crores. It is true that since separation the revenue expenditure of the railways has been relieved of the sinking fund payments made towards the reduction of capital, which amounted to more than 2 crores. But against this has to be set the fact that the institution of the Depreciation Fund has resulted in an additional charge to revenue of over 3 crores. The results of these 3 years therefore are not only in excess of the immediate results which the Inchcape Committee wished to see, but have even exceeded the figure which they suggested should be ultimately aimed at by the Railways. We are now even in a position to consider a reduction in freights and fares which in the position in which they found the Railways the Retrenchment Committee could not have considered to be within the range of practical politics, and while the process of rehabilitation goes steadily on, we have also been able to embark on an extensive programme

of new construction. We can contemplate these results, I repeat, with sober satisfaction. I say this the more readily because I am not so foolish as to claim the credit for myself. Human energy and human ability have indeed played their part, and since we all believe in rendering honour where honour is due, I shall have the whole House with me when I pay my tribute to Sir Clement Hindley, Mr. Sim, the Railway Board, Railway Agents and the Railway Staff generally. But if there is one thing more than another to which our better prospects are due, it is the Convention of September 1924.

At one point in the debate it looked as if the cause was lost, but good will and good sense triumphed in the end, and this the second Assembly of the Indian Legislature may congratulate itself on the fact that it will go down to history as the Assembly which at long last placed Railway Finance on a proper basis. I sometimes think that we of the Railway Department get more than our fair share of hard knocks, and no doubt we shall get more next week. Nevertheless, we shall always remember this Assembly with gratitude, for it is this Assembly that has given us the chance of managing the Railways as they should be managed. Differences of opinion there have been between us on questions of policy as well as on questions of detail. But whatever causes of complaint there may be against us, I hope that we may be given at least this much credit, namely, that we are animated by a single-minded, even jealous, devotion to the interests of Indian Railways. Already they are a property of enormous value to the State. We wish to make that property more valuable still. For my part, I shall always look back with pride and pleasure on my connection with the Indian Railways and my hope is that they will expand and grow and become more and more an efficient instrument of trade. For, believe me, Sir, the prosperity of India is in no small degree bound up with the prosperity of her Railways.

APPENDIX IX.

SIR BASIL BLACKETT'S SPEECH INTRODUCING THE BUDGET, DATED 1ST MARCH 1926.

Sir, in the Budget for 1925-26 the Government of India and the Legislature had the satisfaction of making a substantial beginning in the reduction of Provincial contributions, when, apart from other temporary relief, a permanent diminution of Rs. 2½ crores was effected in their total. We were enabled to take this welcome step in view of substantial realized surplus in each of the years 1923-24 and 1924-25, and in expectation of a balance on the right side in the year 1925-26. I am glad to be able to inform the House that, in spite of the considerable revenue which we then gave up in relief of the Provinces, a realised surplus for 1925-26 is now assured. The exact figure is of course still a matter of estimating, but there is no doubt that the balance will be on the right side; and this notwithstanding the very unusual step taken during the year in regard to the Cotton Excise Duty. This duty ceased to be levied as from the 1st of December 1925 and in the announcement regarding the cessation of its levy it was made clear that, barring unforeseen accidents, suspension was intended in all but form to be equivalent to abolition.

2. This announcement inevitably takes away some of the beautiful uncertainty of anticipation, some of the pleasant thrill of expectancy, which is supposed to attach to the opening of a Budget. Instead of hoping—shall I say, against hope?—that this Budget may perhaps contain proposals for bringing to an end this tax, so long the subject of controversy, Honourable Members have, I suspect, already in their minds written it off, and, as they listen to me, are waiting in anxious suspense, not to learn the fate of the Cotton Excise Duty, but only to know what other reliefs, if any, may be in store for them. In regard to the Cotton Excise Duty, I will keep them in doubt no longer. I will admit them at once to the secret that the Finance Bill about to be presented to the House includes a clause abolishing the Cotton Excise Duty finally and entirely. The patient died on December the 1st, 1925, and it only remains for us to assist at his obsequies and give the corpse decent interment. We have no need to fear even its unlamented ghost. No miracle can restore it to life at this time other than some unthinkable accident in the passing of the Finance Bill.

3. *Actual outturn of 1924-25.*—Before satisfying the curiosity of Honourable Members in regard to other proposals in the Budget, I must first review shortly the actual figures for 1924-25 and, in somewhat greater detail, the revised estimates for the year 1925-26. Our revised estimates for 1924-25 anticipated a surplus of almost 4 crores. The audited accounts

which have just been published show a surplus of 5·68 crores—an improvement of nearly 1·69 crores on our expectations of a year ago. Under all the heads of the Civil Budget, apart from Railways, the net variation between the revised estimates and the actual figures amounts to 15 lakhs only, though there are appreciable variations in both directions under individual heads. The increase in the realised surplus is accounted for almost entirely by a reduction in net military expenditure amounting to 70 lakhs and an increase in the contribution from Railways amounting to 1,14 lakhs. The savings in military expenditure arose from underspending in England due partly to decreased expenditure on purchase of stores and partly to an adjustment in India's favour of some payments to the War Office arising out of claims in connection with war expenditure. These claims, I may say, have no connection with the important sums in dispute between the War Office and the Government of India in regard to war expenditure. Negotiations for the settlement of these latter have been vigorously pursued during the year. The issues are complicated, and I am not yet in a position to announce the final outcome, but I have every hope that the result will in the end be regarded as not unfavourable to India. The large variation amounting to 1,14 lakhs under Railways is the result of an increase in the net railway earnings which, after the deduction of the fixed contribution of 5·09 crores, proved to be 8·07 crores instead of 4·65 crores as anticipated. There were savings in working expenses owing partly to adjustments in connection with the Privy Council decision regarding Customs duties on stores for Companies' lines. On the other hand, the gross traffic receipts exceeded expectations by 1·48 crores, chiefly because heavy traffic in grain and cotton developed in February and March, the movement of these crops beginning earlier than usual. One result of this is that the railway receipts in the early part of the current year fell below our anticipations. The final outturn of the year 1924-25 shows a revenue of 138·04 crores and an expenditure of 132·36 crores, leaving a realised surplus of 5·68 crores. The usual comparative table showing the actual outturn in each of the last ten years is attached to the printed Budget speech.

REVIEW OF THE YEAR 1925-26.

4. *General conditions.*—Weather conditions in India in the year 1925-26 have not been altogether favourable. The winter rainfall a year ago was not unsatisfactory—I regret to say that it is less satisfactory in Northern India this year—but the wheat crop suffered from excessive cold and high winds. Almost throughout India the monsoon came to an end too early. In old days this might have caused really bad famine conditions in some areas, but the great improvement in our communications in recent years has contributed materially to a reduction of famine risks especially when, as in 1925, the monsoon rainfall was not entirely deficient. Indian trade and commerce during the year have, however, been less under the influence of internal conditions than under that of external conditions

affecting world trade. I drew attention a year ago to the gradual recovery of trade from world-wide depression under the stimulus of greater general security and reduced prices. Similar forces have operated in India during 1925-26, but the fall in prices has been more marked than in the previous year. For all commodities the general index figure came down from 176 at the end of December 1924 to 163 at the end of December 1925. Prices of cotton piecegoods and, in a lesser degree, of raw cotton were a year ago entirely out of tune with the general price level. Raw cotton appears now to have returned very nearly to its pre-war relation to other prices, and this fact holds out the prospect of an increased volume of trade in cotton piecegoods as soon as prices become steadier. Cotton piecegoods are, however, still priced at a level considerably above the general average in spite of a very marked fall especially during the last six months of the calendar year. It is perhaps not unnatural that during this painful period of restoration of price equilibrium the cotton mill industry, particularly in Bombay, has been subjected to serious difficulties and that there has been a considerable decrease in our imports of cotton piecegoods. During the first 9 months of 1925-26 there was a fall of 22 per cent. in value and 15 per cent. in the quantity of piecegoods imported. In our export figures a large reduction in the quantity and value of our exports of wheat is the most notable feature during this period.

5. Apart from these two commodities, the trade figures of the year have been satisfactory. The tea industry has had another prosperous year, while the prices both of raw jute and jute manufactures show a considerable advance. A significant feature of the year which is of great importance in relation to the question of transport facilities in India has been the growth of the use of motor vehicles. There has been a large increase in the number of private cars in use and an even more striking increase in the number of vehicles plying for public hire. The number of motor vehicles imported has gone up by 24 per cent. Our receipts from the excise duty on petrol reflect the increase in the use of motor vehicles in a striking manner. Though the rate of duty was reduced by 83½ per cent. a year ago, yet our revenue from the duty is as high as before. Among other features of interest I may mention that imports of artificial silk have gone up seven-fold in two years.

6. During the course of 1925 the League of Nations issued a table designed to compare on a gold basis the total foreign trade of all the countries of the world in 1913 and 1924. According to the figures in that table India stood in 1913 eighth on the list of countries in the matter of the total value of foreign trade. In 1924 she had risen to the fifth place, and there is little doubt that she has maintained that position throughout 1925. In spite of a fall in values and the depression in the piecegoods trade, India's total foreign trade in the first ten months of 1925-26 amounted to 496.43 crores or only 16.81 crores less than the figure for the corresponding period of the previous financial year. The net imports of bullion during the calendar year 1925 amounted to 80.92 crores of which 60.69

crores represented gold. This latter figure is the highest ever recorded. But the boom in the demand for gold had nearly spent itself in the first three months of the calendar year, and the imports of gold in the ten months of the financial year beginning on the 1st of April 1925, at 28.10 crores are 19.09 crores below the corresponding ten months of 1924-25. The visible balance of trade including private imports of treasure was in favour of India at the end of January to the extent of 85.82 crores of rupees—a figure which should be compared with 42.29 crores a year ago and 63.30 crores in the corresponding period of the year 1923-24.

7. The rupee-sterling exchange has shown persistent strength almost throughout the year, and for the time being at any rate we seem to have come to an end of the wide fluctuations which have been a feature of the post-war period. Thanks in large measure to the steadiness of exchange and also to other causes such as the abstention of the Government of India from the loan market for purposes other than conversion—a subject to which I shall have occasion to refer later—the busy season of 1925-26 promises to be remarkable for an almost complete absence of stringency in the money market. After the service stringency of the winter of 1923-24, conditions in the following season of 1924-25 showed a noticeable improvement and the Bank rate did not rise above 7 per cent. and that only for a period of 4 months from January to May 1925. It was reduced by the third week in May to 6 per cent. and by the first week in July to 4 per cent. The rate was raised again to 5 per cent. in the fourth week of September and remained there till the first week of December, when it went up to 6 per cent. If, as seems possible, we are able to get through the busy season of this year with a rate not higher than 6 per cent., this will be the first occasion since the establishment of the Imperial Bank of India when the rate has not risen as high as 7 per cent., and if we leave two exceptional war years out of the account when conditions were artificial, it will represent what I think must be a record in the history of Indian banking, and will be an achievement for which the authorities of the Imperial Bank of India will deserve our special thanks and congratulations.

REVENUE, 1925-26.

8. *Customs.*—Our Customs revenue for the current year reflects accurately the trade conditions at which I have glanced. The suspension of the Cotton Excise Duty from December onwards, coupled with the notable fall in values, has had the result of reducing our income from the duty by 71 lakhs as compared with the Budget estimate. The yield from the import duty on cotton goods was estimated cautiously at 7.30 crores, or 40 lakhs less than the revised estimate for 1924-25, but it is not now estimated that we shall collect much more than 6 crores. On the other hand, the increase in the world production of sugar has resulted in a very heavy fall in sugar prices leading to a large increase in the imports into India, and thanks to the action of the Legislature a year ago in passing an Act converting the previous *ad valorem* duty on sugar into a

specific duty, our revenues have benefited very materially. Our present anticipations point to an increase of 1,30 lakhs under sugar, fully counterbalancing the decrease under cotton piecegoods. Protective duties show increased yields, and as I have already mentioned, the reduction in the excise duty on motor spirit has proved a great success in that it has led to no such decrease in the yield as cautious estimating made it necessary for us to anticipate a year ago. Thanks to these counterbalancing factors, we now anticipate, in spite of the loss of 71 lakhs on Cotton Excise Duty, gross receipts from Customs for the year of 47·83 crores, which is 30 lakhs higher than the Budget figure. A probable saving of 20 lakhs under refunds enables us to anticipate a total improvement of 50 lakhs in the net receipts which we now put at 46·85 crores.

9. *Taxes on Income.*—Under Taxes on Income, which are based on the profits of the previous year, we made what we considered a conservative estimate for 1925-26 in taking a net yield of 17·35 crores which was 87 lakhs below the Budget estimate of 18·22 crores for the previous year, though the figure actually realised in 1924-25 proved to be 18·01 crores only. Unfortunately our estimate under this head has again proved over-sanguine. The gross receipts are now estimated at 17·88 crores, which is 69 lakhs less than the Budget estimate, while refunds, etc., exceed the estimate by 41 lakhs, making the net yield 18·25 crores, or 1,10 lakhs less than anticipated.

10. *Salt.*—With the salt duty at Rs. 1-4-0 we budgeted for a normal year's receipts. It has proved, however, that we made insufficient allowance for the large accumulation of stocks which followed on the reduction of the duty in March 1924. The off-take of salt in the early months of the summer, particularly from the Northern India Salt sources, was much below normal and for the year as a whole we expect a decrease of 55 lakhs, making a net yield of 6·40 crores in comparison with the Budget figure of 6·95 crores.

11. *Opium.*—A supplementary grant of 51 lakhs was passed by this House during the Simla session in order to meet extra payments to cultivators in the United Provinces on account of the high outturn of the opium crop. The extra payments required, owing partly to savings elsewhere, are now expected to be 35 lakhs only, and they will be more than counterbalanced by the increase in receipts. The stocks of excise opium in treasuries which, as I explained in my Budget speech last year, were taken over and paid for by the Local Governments as on the 1st April 1925, have proved to be higher by 24 lakhs than we had allowed for, thus adding by this amount to our non-recurrent receipts under this head. After taking these and other factors into account, we now anticipate that our net revenue from opium in the year will be 2·24 crores, which is 48 lakhs higher than we estimated last March.

12. *Railways.*—In framing our estimate of the receipts of the General Budget from Railways we allowed for the fixed contribution of 5·09 crores together with an estimated receipt of 15 lakhs representing one-third of

the excess over 3 crores expected to be transferred to the Railway reserve. The net earnings from railways have proved, as the House is aware, slightly higher than anticipated in the original Budget, so that our share in the surplus over 3 crores is increased by 8 lakhs, and the total contribution from Railways is estimated at 5.32 crores.

13. *Other Revenue Heads.*—We expect an increase of 43 lakhs under Interest owing mainly to higher rates for short money in London and higher cash balances there, and for similar reasons we anticipate an additional 46 lakhs of interest on investments of the Currency Reserves. The receipts from the Enemy Ships account and the first instalment of Reparation payments from Germany under the Dawes scheme give us an extra 21 lakhs under the head of extraordinary revenue. This completes my survey of the Revenue side of the account for 1925-26, and explains my reasons for putting the revised estimate of revenue for the year at 131.35 crores instead of 130.68 crores.

EXPENDITURE, 1925-26.

14. *Exchange.*—For a great part of the year we have been effecting our remittances at the fixed figure of 1s. 6 $\frac{2}{3}$ d. and we are now able to anticipate that the average rate of exchange for the year as a whole for accounts purposes will be 1s. 6 $\frac{1}{4}$ d. as against the Budget figure of 1s. 6d. Apart from an improvement of 6 lakhs in our railway revenues which affect us only indirectly, and again of 7 lakhs in regard to our capital expenditure, the revised figure for exchange accounts to the extent of 10 lakhs for an improvement in our revised budget of revenue and expenditure.

15. *Military Services.*—The variations in the largest item of our expenditure, Military Services, are not of the same magnitude as in previous years. The net expenditure on Military Services, according to the Budget estimate for the current year, was 56½ crores. Accuracy in reaching a revised figure for military expenditure at this period of the financial year is always specially difficult to attain, but the course of expenditure up to date points to a total net figure of 56.28 crores, or practically the same figure as our first forecast. Scrutiny of the account for non-effective services between India and the War Office has led to a special credit, for which no provision was made in the estimates of about 70 lakhs, representing a revision of the account with retrospective effect from 1919. As against this, expenditure in India has markedly exceeded the estimate in certain directions. A special provision amounting to 40 lakhs has had to be made for the purchase of certain kinds of ordnance equipment in which serious shortage has been disclosed. His Excellency the Commander-in-Chief has instituted an expert inquiry into the whole question of ordnance equipment with a view to ensuring that the real facts may be brought into clearer light and that the reasons for these shortages, which ought not to have occurred, if the system of control had been working properly, may be fully disclosed. A special grant of 15 lakhs has also been allotted for the purchase of supplies of ghee in March in advance of next year's require-

ments, it having been ascertained that by purchasing at an earlier date each year considerable economies can be effected. Savings of 18 lakhs on pension charges in India and an excess expenditure of about 20 lakhs owing to higher prices for articles of food and forage, are among the most important of the other variations. Since the net result of these variations is to bring the revised figure for net military expenditure out at practically the same total as the original Budget, the Finance Department are entitled to congratulate themselves on the satisfactory operation of the system introduced in connection with the 1925-26 Budget, of making a lump sum cut, which amounted this year to 20 lakhs, over the total military estimate.

16. *Civil expenditure.*—I have already mentioned the excess of 35 lakhs in opium expenditure. Interest charges on permanent debt also exceed the estimate by 35 lakhs owing to the capital expenditure on railways having been less by 3½ crores than the budgeted figure, to a reduction in the interest chargeable to the Posts and Telegraphs Department of which I shall speak later, and to the fact that the rate of interest chargeable on railway and other capital expenditure since 1917, which is arrived at by taking an average of the rates at which the Government of India have borrowed since that date, has proved to be less than the figure assumed at the time of the preparation of the Budget. Plans are being worked out with a view to a modification of this rather complicated system of calculating interest and the substitution of a new procedure which will be less likely to disturb our Budget estimates. On the other hand the revised figures of 1925-26 profit by an unexpected credit of 30 lakhs under the head of Interest owing to the payment by the Bombay Government of interest to the Provincial Loans Fund for 15 months instead of 12 months—a change of procedure introduced in order to bring their interest dates to the 31st March in each year. Slight variations in regard to other Civil expenditure apart from Posts and Telegraphs mostly cancel each other. The increased bounties on steel are almost exactly set off by the transfer of the charges on account of the Security Printing Press at Nasik to capital.

17. *Precautions against over-estimating.*—I have already referred to the successful operation, so far as military expenditure is concerned, of the system introduced a year ago, with a view to preventing over-budgeting, of making a lump sum cut. The total cut made in the estimates of Civil expenditure was 15 lakhs. It was made under twelve different heads, and in all except two cases the cut has justified itself, the total expenditure having been kept by the Departments concerned within the reduced grants. The two exceptions are the Survey of India and the Indian Stores Department, in regard to both of which the House has already voted supplementary grants. As I explained in my Budget speech a year ago, this new procedure was regarded as experimental and we are proposing to repeat it for a second year in connection with the Budget for 1926-27.

18. *Posts and Telegraphs.*—The working of the Indian Posts and Telegraphs Department in the current year requires rather fuller treatment.

The total gross receipts are now expected to be 10.23 crores; or 18 lakhs lower than the estimate. On the other hand, there is a saving of 19 lakhs in working expenses which, owing to certain abnormal circumstances which I shall explain shortly, are now estimated to amount to 9.57 crores. This makes the net receipts 67 lakhs as against our anticipation of 65½ lakhs. This figure is of course exclusive of interest charges. At the time of the Budget it was anticipated that the final result of the working of the department for the year, after adjustment of interest, would be a small loss of Rs. 60,000. The figure included in the Budget for interest was 66 lakhs and was based, as I explained a year ago, on a rough figure, not at that time completely examined, for the total capital outlay on the Indian Posts and Telegraphs Department. The figure taken was lower than the capital outlay as shown in our books, and the intention was that the interest actually charged should be based on the depreciated block value of the assets of the department on the 1st of April 1925 when finally ascertained. The departmental investigations into the value of this block have now been completed, but the report is still under consideration. According to the figures in this report, the value of the assets is very much less than the book value, but the exact figures have still to be settled. For the present, I have felt justified in taking a round figure of 49 lakhs for interest as against the figure of 66 lakhs taken in the Budget. On this assumption, the net result of the working of the department as a whole is a profit of nearly 18 lakhs. This surplus is, however, non-recurring. The expenditure on postal stationery and stamps included in working expenses was 10 lakhs below the normal owing to the fact that the department was eating down stocks during the year. In addition, a previous wrong adjustment to the extent of about 8 lakhs under the head of Stationery and Printing charges has had to be corrected in this year's accounts, thus reducing the working expenses by a non-recurrent sum of 8 lakhs. The true estimated profit is thus reduced to vanishing point unless further savings accrue in working expenses, and unfortunately there is still some doubt as to the correctness of the figure for interest.

19. The House will remember that in my Budget speech a year ago I explained that it was proposed to transfer to capital the stocks of postal and telegraphic stores carried on revenue account on the 31st March 1925. The total value of such stores in the Indian Posts and Telegraphs Department was then estimated to be 1.24 lakhs. The actual balance has proved to be 1.61 lakhs. The stocks held in the Indo-European Telegraph Department have also to be taken into account, and as the credit on this account has proved to be 15 lakhs more than we allowed for, the total amount of this non-recurring credit to Revenue during the year 1925-26 will be 1.81 lakhs.

20. It will be seen that the revised estimates of revenue and expenditure for the current year have had to be arrived at after taking into account considerable variations not contemplated in our Budget estimates. The most important of these, apart from the results of suspending the

Cotton Excise Duty, are the increased credit to revenue of 52 lakhs from Posts and Telegraphs stores which I have mentioned, the increase of 24 lakhs in the value of the stocks of opium at treasuries taken over and paid for by Local Governments this year, the transfer of 17 lakhs of revenue expenditure to capital account in the case of the Security Printing Press at Nasik, and the decrease in net expenditure under the head of Interest amounting to 30 lakhs resulting from the payment by the Bombay Government of interest for fifteen months instead of twelve. All of these four items are in the nature of book-keeping transactions, but they have none the less the effect of swelling our surplus. The figures given in the Budget estimate for revenue and expenditure for the year were 130.68 crores and 130.44 crores respectively, leaving an estimated surplus of 24 lakhs. The improvement shown in the revised estimates is 1.06 lakhs, the figure for revenue being 131.35 crores and for expenditure 130.05 crores. The four special items which I have mentioned aggregate 1.23 crores and more than account for the increased surplus.

21. The following statement shows the main variations in revenue and expenditure working up to this total:—

	Lakhs.	
	Better.	Worse.
Customs	50	...
Taxes on Income	...	1,10
Salt	...	55
Opium (net)	48	...
Interest receipts	43	...
Currency receipts	46	...
Extraordinary receipts	21	...
Interest on debt (net)	...	35
Posts and Telegraphs	77	...
Railway contribution	8	...
Other heads	18	...
	3,06	2,00
Total, better	1,06	
Budget surplus		24
Revised surplus		1,30

22. *Indian Archaeological Fund.*—This anticipated surplus would in the ordinary course be applied automatically to the reduction or avoidance of debt. The Government of India, however, desire to place before the Legislature a proposal for the utilisation of 50 lakhs of this surplus for the formation of an Indian Archaeological Fund. The details of the proposal, which will be embodied in a Bill, will be explained more fully to the House

in due course. Its financial effect will be to apply 50 lakhs of the surplus, which would otherwise go to debt redemption, for the purpose of capitalising our liabilities in connection with archaeological research. It is not therefore, except in form, a departure from the sound rule that a realised surplus should go to reduction of debt. Future budgets will be saved from a revenue charge on this account, but as it may be assumed that our outstanding debt will be 50 lakhs higher than it would otherwise be and our interest charges consequently increased, the net ultimate effect on future budgets is nil. Its immediate effect upon our revenue estimates for the current year will be to reduce the revised figure for the surplus to 80 lakhs.

23. We who are living in Delhi do not need to be reminded of our debt to the Archaeological Department. When in the intervals between our deliberations we visit any one of the historical monuments that surround us, we realise the care and skill which have been devoted to preserving these ancient structures and to beautifying their surroundings. We realise and are grateful. But this is not the only side of the Department's activities. There is another which is perhaps less well-known, the work of excavation. Some of us have had the privilege of visiting Taxila and studying the fascinating antiquities, taking us back two thousand years in Indian history, which have been unearthed there in the last two decades. We are glad that they are now to be housed in a suitable museum. But if Taxila takes us back two thousand years, the recent discoveries at Harappa and Mahenja-Daro will, if the evidence is confirmed, transport us in one flight to a period of Indian history three thousand years earlier. Nay more: they hold out expectations of enabling us to get back thousands of years earlier still to a period in human history which was as remote from the inhabitants of Mahenja-Daro in the year 3000 B.C. as those ancient Indians of the Indus valley are from us to-day. The Indo-Sumerian discoveries open up a vista which may once again revolutionise the world's knowledge of the early history of mankind. Their possibilities are such that they must excite even the most unimaginative.

24. Sir John Marshall, to whom since the day when the late Lord Curzon brought him here Indian archaeology owes a very great debt, has stated that a hundred crores of rupees could be spent on archaeological research in India without doing more than scratch the surface. Almost the only source from which funds are at present available for excavation in India and Burma is the Central Budget. However desirable archaeological expenditure may be in the cultural interests of India and of mankind, it is obvious that the taxpayer cannot be asked to give more than comparatively small sums. In 1923-24 the grant for Archaeology was cut down severely under the influence of retrenchment. In 1925-26 the sum available for research was about 1.3 lakhs including the provision made in connection with Sir Aurel Stein's special work in Central Asia. The Finance Department have been pressed to provide a considerably larger sum in 1926-27, but we intimated that about 2½ lakhs was the maximum which we could see our way to grant.

25. Meanwhile, in spite of the obvious importance of following up the recent discoveries, the Archaeological Department have found that they cannot frame a considered programme for a period of years and cannot train young Indians as archaeologists in the absence of the possibility of giving them security of tenure or employment. The idea has accordingly been mooted that an Indian Archaeological Fund should be started, and a Board of Trustees established somewhat on the lines of the Trustees of the British Museum. Once the Fund came into effective existence, it might, it is hoped, attract donations from Indian Princes and from others interested in archaeology and from winter visitors to India whose imagination is, I find, always stirred by Indian monuments. The essence of the proposal which will be placed before the Legislature therefore is that, instead of voting a grant of 2½ lakhs in the estimates for 1926-27 it should make a supplementary grant of 50 lakhs out of the surplus of 1925-26 as an initial endowment for the Fund. As I have already explained, this amounts to little more than a book-keeping change so far as our budgets for 1926-27 and for future years are concerned. Meanwhile, however, the Fund will be well started; the interest on the endowment of 50 lakhs will bring in approximately 2½ lakhs a year to be spent on archaeological research. The Trustees will be able to make an attractive appeal in other quarters for additional endowments and can go ahead to frame a programme and to train budding archaeologists. Archaeological excavation is the most practical form of historical research, and it is a form in which I am convinced India can make an immense addition to the world's historical knowledge. But it is ineffective unless it can be pursued on an adequate scale and according to a programme based on the regular receipt of at least a minimum income. The income of the proposed Archaeological Fund will be devoted to systematic and continuous archaeological excavation. The people of India are justly proud of their past and I feel sure they will welcome the establishment of this endowment for historical research.

WAYS AND MEANS AND PUBLIC DEBT.

26. The real improvement which has come about in the finances of the Government of India during the last few years and the strength of our position during the financial year 1925-26 are strikingly reflected in the figures of our Public Debt and of our debt position generally and in the story of our ways and means operations. The House will remember that in my Budget speech last year I stated that not only did we not anticipate any necessity for borrowing outside India during the year, but also that the maximum amount that we should require to raise by a rupee loan in the open market in India would be 12 crores. I stated that it was not improbable that at the same time as we approached the market for a rupee loan we should also place before the public a conversion offer with a view to beginning operations for the conversion of early maturing bonds. In the event, we found ourselves able in June 1925. to announce that our

operations in the market in India would be confined to a conversion loan in view of the improvement shown by the figures of our actual balances on the 31st March 1925, in comparison with our anticipations indicated in the revised budget figures. This increase in balances was mainly due to the increase in the net railway earnings which affected both our revenue surplus and our ways and means position, and to the drawings upon us by the Provincial Governments proving very much less than they had anticipated at the time they framed their budgets.

27. Our ability to dispense with a cash loan was most welcome to the money markets of India, but it was a subject of some comment in various quarters that the estimates framed at the time of the introduction of the Budget were proved only three months later to be so far out. I am inclined to think that the phraseology consecrated by long usage in Indian budget speeches which refers to the ways and means portion of the statements as a "Ways and Means Budget" is somewhat misleading, in that it may tend to give the public the impression that the figures and estimates in the ways and means portion of the Budget make a claim to comparative exactness not inferior to that made by the figures of our revenue and expenditure estimates. Our Ways and Means Budget is intended to be and necessarily must be illustrative rather than exact. The ways and means figures bring together the net results of operations of very varying character all over India and Burma and in London. To a large extent these operations are either not under the control of the Government of India at all or only very indirectly under their control. The aggregate result of the variations in the estimates of incomings and outgoings of the Provincial Governments on Revenue and Capital account brought to light between the date at which the Central Budget figures were prepared and the date when the balances of the Provincial Governments on the 31st March 1925, began to be approximately ascertained—a period of from 3 to 4 months—accounted for a reduction of not far short of 6 crores in our estimate of the finance required during the year 1925-26 for meeting aggregate outgoings. Apart from the operations of the Provincial Governments, our balances are affected by the incomings and outgoings on account of various deposit and advance heads, sums received and paid out in respect of provident funds of various descriptions, deposits and withdrawals of the Post Office Savings Bank, and purchases and encashments of Post Office Cash Certificates. In these circumstances it is neither possible nor desirable to attempt to lay down a rigid ways and means programme far in advance. The only result of doing so would necessarily be to swell our balances needlessly. At the same time it is certainly desirable that we should do anything that may reasonably be possible to secure greater accuracy in the estimates of Provincial Governments' incomings and outgoings, and I am not entirely satisfied that improvement in the machinery for dealing with our deposits and advances accounts is unattainable. These and cognate subjects are at the present moment engaging the careful attention of the Finance Department of the Government of India.

28. The decision to confine our market operations to the conversion loan in the summer of 1925 has been amply justified by results. In spite of heavy remittances in advance of requirements in London, we have been able to finance our outgoings in India without serious inconvenience, and without resort to the money market for temporary accommodation or assistance from the Imperial Bank in the form of ways and means advances. The conversion loan resulted in conversions of bonds maturing during the years 1925 to 1928 to a total of 30.61 crores, of which over 25½ crores were conversions into the 5 per cent. income-tax free loan of 1945-55, and about 4½ crores into the new issue of 10-year bonds liable to income-tax. The conversion loan involved immediate cash payments which amounted to 87.6 lakhs. This sum, however, included the premiums on 1925 and 1928 bonds to the extent of 23.4 lakhs which would have had to be paid at maturity in any case. The additional amount of cash payments involved may therefore be put at 64.2 lakhs. As the result of the conversion loan we have effected an annual saving in interest on the bonds converted of approximately 18.7 lakhs, and in addition 4½ crores of the public debt have become subject to income-tax instead of being income-tax free. Moreover, apart from this considerable reduction in our annual charge for interest we have reduced our liabilities for the repayment of maturing loans during the next three years by nearly 29 crores, and in particular our liability in respect of the 6 per cent. bonds maturing in September 1926, has been brought down from 37.9 crores to 20.05 crores. This operation has thus materially eased the problem of dealing with our maturing debt, the magnitude of which I had occasion to explain to the House in a speech on February 18th, 1925, as well as in my Budget speech a year ago, and we hope to reap further reward from this successful conversion operation when the time comes for the issue of a rupee loan next summer.

29. Before dealing with this latter question it would be convenient for me to summarise our ways and means position for the years 1925-26 and 1926-27. The figures are as follows:—

Outlay:	(Figures in crores of rupees.)	
	Revised, 1925-26.	Budget, 1926-27.
	Ra.	Ra.
1. Railway capital outlay	19.5	28.0
2. Other capital outlay (including Delhi, Post and Telegraphs, Visaga- patam Harbour, etc.)	4.5	2.5
3. Provincial Governments transactions	6.0	7.0
4. Discharge of Debt	38.3	23.3
	<hr/>	<hr/>
	68.3	59.3
	<hr/>	<hr/>

(Figures in crores of rupees.)

	Revised, 1925-26.	Budget, 1926-27.
<i>Resources.</i>		
1. Surplus	8	...
2. Rupee Loan	30.6	22.0
3. Postal Cash Certificates	6.4	4.0
4. Other unfunded debt (including Postal Savings Banks)	5.8	5.6
5. Debt Redemption	5.0	5.0
6. Depreciation and reserve funds	7.0	5.6
7. Miscellaneous (net)7	2.1
8. Reduction of Cash balance	12.0	15.0
	68.3	59.3

30. The House will share the satisfaction of the Finance Department and of the Government of India in the strength of the position which these figures disclose. During the year 1925-26, instead of borrowing over 7 crores net in the market in India as anticipated in the Budget statement, we have discharged 2 crores net of market debt in India and have paid off 5.7 crores of market and other debt in England. Nevertheless, we have financed during the year new capital expenditure chargeable to loan funds to a total of 30 crores of which 6 crores is on behalf of Provincial Governments through the Provincial Loans Fund. How has this striking result been achieved? A fuller explanation would involve a closer analysis of the figures than is perhaps desirable in a Budget speech, and I must be content to refer only to the main items. Our capital expenditure has been financed in the first place to the extent of about 12 crores by a reduction of balances, though these are still about 14 crores higher than we anticipated a year ago. Our Debt Redemption scheme gave us 5 crores and our revenue surplus will give us 80 lakhs. The Post Office Cash Certificates and other unfunded debt, including the surplus of Post Office Savings Bank deposits over withdrawals, and the railway reserve and depreciation funds provided us with the balance. The incomings from railway reserve and depreciation funds and from cash certificates were in each case about 2 crores more than we had estimated.

31. In 1926-27 maturing debt falling due for repayment including railway debentures to be redeemed in England amounts to nearly 24 crores. The capital expenditure of the Central Government amounts to 23½ crores of which 26 crores is railway capital outlay. The Provincial Loans Fund estimate shows an outgoing of 7 crores for advances to Provincial Governments. We thus require nearly 24 crores for maturing debt and 35½ crores for new capital expenditure or nearly 60 crores in all. In order to meet this liability we expect to be able to draw further on our cash balances to the extent of 15 crores. We look for 11½ crores from miscellaneous sources including Post Office Cash Certificates and other unfunded debt, and about 5 crores each

from the Debt Redemption provision and from railway reserve and railway and other depreciation funds. So far, therefore, as we are able to judge from our present estimates, we shall require to raise a loan in the money market of an amount not exceeding 22 crores. There is no likelihood of our having to resort to external borrowing during 1926-27, this being the third year in succession in which the issue of an external loan will have been avoided. We expect to confine ourselves accordingly to the issue of a rupee loan in the Indian money market for a sum not exceeding 23 crores, of which 20 crores will be for the renewal of the bonds maturing next September. The net amount of new money required from the Indian market will not exceed 3 crores, which is less than the amount needed to pay off external debt in London. More than the whole of our new capital programme amounting to over 85 crores will be financed without recourse to market borrowings. It will be a matter for consideration whether at the same time as we issue our rupee loan we should offer a further opportunity to holders of bonds maturing after 1926 for anticipatory conversion, as we did last year.

32. In any case I feel confident that the strength of the position thus disclosed following on what was achieved during 1925 will have a markedly favourable effect on the terms on which we shall be able to borrow. The progressively falling rate of interest at which our loans in India have been taken up by the public will continue to operate to our advantage. Our conversion issues last summer were offered on a basis of 5 per cent. tax-free or about 5½ per cent. subject to tax. It is interesting to observe that the new 5 per cent. bonds subject to tax are now quoted in the market at a price showing a considerable premium over the issue price and our 5 per cent. tax-free loan 1945-55 now stands definitely above par. The following figures showing the market prices of Indian Government securities in India for the last four years tell their own tale.

	MARKET PRICE ON			
	1st February, 1923.	1st February, 1924.	1st February, 1925.	1st February, 1926.
	Rs.	Rs.	Rs.	Rs.
5 per cent. Tax-free loan 1945-55	88 4	96 10	97 15	100 12
5½ per cent. Indian Government Rupee loan.	57 0	66 0	66 9	70 8

33. While I am dealing with this subject, I shall like to draw attention also to the movement of prices for Indian Government stocks in London, which brings out clearly the advance in the Indian Government's credit in that market which has resulted from the absence of any new borrowing since May 1923 and from the general improvement in India's financial position. As I pointed out last year, we were fortunate in the rate we secured in May 1923.

for our last loan in London. Generally speaking, prices of gilt-edged securities on the London market stood at a higher level at that period than they have done at any time since that date, when we offered £20 million of India 4½ per cent. stock to the public at 90. The market prices of gilt-edged securities in London including Indian Government loans are at all times governed by the general conditions of the market, and have during the last year been considerably affected by the comparative stringency which followed on the steps taken to restore and maintain parity of sterling with gold. The following figures compare the price of India 3 per cent. and 3½ per cent. stock in London in April 1914, April 1923 and February 1926, with the prices of certain other gilt-edged securities at the same dates:

	30th April, 1914.	30th April, 1923.	1st February, 1926.
India 3 per cent. loan	75½	60½	58
India 3½ per cent. loan	88½	70½	68
Local loans 3 per cent. stock	87	69½	64½
London County Council:			
3½ per cent. stock	97	79½	73
3 per cent.	81	68½	63

I give a further table comparing the price of India 4½ per cent. stock on 30th April 1923 and 1st February 1926 with the price of British Government 3½ per cent. conversion loan on the same dates.

	30th Apr., 1923.	1st February, 1926.
India 4½ per cent. stock	90½	83½
3½ per cent. conversion loan	81	76½

It will be seen that, though owing to general market conditions the prices of Indian Government securities are lower now in London than they were either in April 1923 or in April 1914, the credit of the Government of India stands considerably higher in the market in relation to that of the British Government and other gilt-edged borrowers than it did either in 1914 or in 1923. Another rather remarkable conclusion which emerges from these figures is that the Government would at the moment at least have to pay rather a higher rate of interest for money borrowed in London than for a loan issued in India.

34. It is not open to doubt that the improvement in India's credit to which I have drawn attention is due to the strenuous efforts made by the Government of India and the Legislature to restore and maintain complete budgetary equilibrium and to the policy which we have adopted in regard to provision for reduction and avoidance of debt and to strict adherence to our rule of borrowing only for purposes which are clearly reproductive. The effect of this policy of encouraging whenever possible all sound schemes that come forward for capital expenditure of a reproductive character and using our credit in the market only for the purpose of financing such reproductive expenditure, apart of course from the financing of maturing liabilities, is further illustrated in the figures which I now proceed to give regarding the Debt of India. As this is the last Budget with which the present Assembly will be called upon to deal, I have had figures prepared showing the position of our

debt as on the 31st March 1923 in order to bring out the changes which have taken place during the three financial years corresponding to the three years of life of the present House.

Statement showing the Debt of India, outstanding on the 31st March 1923, 31st March 1924, 31st March 1925 and 31st March 1926.

	31st March 1923.	31st March 1924.	31st March 1925.	31st March 1926.
In India—				
Loans	539·83	(In crores of rupees.) 356·81	370·98	366·85
Treasury Bills in the hands of the public.	21·59	2·12	—	—
Treasury Bills in the Paper Currency Reserve	49·65	49·53	49·65	49·65
Other Obligations—				
Post Office Saving Banks	23·20	24·79	25·64	27·48
Cash Certificates	8·18	8·42	13·12	19·52
Provident Funds, etc.	36·17	39·00	42·89	46·27
Total Loans, etc.	411·07	410·58	420·08	418·00
Total Other Obligations	62·50	72·21	61·15	93·27
Total in India	473·57	482·79	501·16	511·27
In England—				
Loans	222·93	(In millions of £) 244·53	263·29	266·45
War Contribution	19·71	19·27	18·81	15·82
Capital value of liabilities undergoing redemption by way of terminable railway annuities.	61·81	60·10	58·84	57·53
Provident Funds, etc.	·04	·18	·16	·20
Total in England	303·93	324·08	341·20	342·48
Equivalent at 1s. 6d. to the Rupee	405·31	432·04	454·93	456·64
Total Debt	878·88	914·83	956·11	967·91
Productive { for Central Government.	536·65	557·09	600·65	627·71
for Provinces.	87·49	97·56	106·43	114·39
Total Productive	624·14	654·65	706·48	742·10
Unproductive	254·74	260·18	249·63	225·81
Total	878·88	914·83	956·11	967·91

35. In order to show the figures of our external debt in a significant way, I have converted sterling at the current rate of 1s. 6d. per rupee not only for 1925 and 1926 but also for 1923 and 1924. The improvement in our exchange has undoubtedly given us some temporary relief in the burden of interest and other payments on sterling debt, and its effect of course is to bring about a marked reduction in the rupee figure as compared with what it would have been at 1s. 4d. It must be assumed, however, that the higher rate of exchange has no permanent effect on the actual burden imposed on the country in meeting our external obligations since, if the number of rupees required is reduced, the commodity value or purchasing power of each rupee is correspondingly enhanced. The effect of taking 1s. 6d. is also particularly noticeable in regard to the unproductive debt figures. It will be seen that our total debt of all kinds had increased from 878·88 crores on the 31st March 1923 to 956·11 crores on the 31st March 1925 and by a further 11·80 crores to 967·91 crores on the 31st March 1926. The unproductive debt was 254·74 crores on the 31st March 1923, 249·63 crores on the 31st March 1925, and will be 225·81 crores on the 31st March 1926 out of a total debt of 967·91 crores. At the present moment it may be said, in order to put the position in a graphic way, that the whole of our rupee debt and more than half of our sterling debt is productive, and that our unproductive debt is now less than one quarter of the whole debt. Excluding the Provincial Governments' debt, the increase in the productive debt during the current financial year amounts to 27·66 crores, while the increase in the three years since 31st March 1923 amounts to 91·06 crores. Unproductive debt has decreased during the year 1925-26 by 23·82 crores.

36. Our internal debt, excluding Provincial Governments' debts to the Government of India, on the 31st March 1923 was 336·08 crores, on the 31st March 1925, 394·75 crores, and on the 31st March 1926, 396·88 crores. Our external debt on the 31st March 1923 was 405·31 crores, on the 31st March 1925, 454·93 crores, and on the 31st March 1926, 456·64 crores. The increase in our external debt during the current year is, as last year, purely nominal. The latter figure includes 4·67 crores or £3½ million of Great Indian Peninsula Railway Company's debentures which, exactly as was the case in 1924-25 with the 24·67 crores or £18½ million of East Indian Railway Company's debentures, are not really an increase in the debt of India as a whole but are merely a transfer from the railway company to the Government of the liability to meet the same interest charge out of the earnings from the same Railway. These two operations more than account for the whole of the increase in the net amount of our sterling debt since 1924. In real truth the operations of the last two years have effected a considerable reduction in India's external liabilities, since, besides taking over the debentures of the railway companies concerned, the Government of India have brought out the shareholders of these railway companies without borrowing in London for the purpose, thus converting an external debt into an internal debt. A further operation of the same sort will take place on the 1st April 1926 when a sum of £3 million provided out of the Government of India's rupee resources and remitted in sterling to London will be applied to buying out the shareholders of the Delhi-Umballa-Kalka Railway.

37. I have more than once publicly stated my conviction that if India would only learn to use her potential capital in greater measure for productive purposes than she does at present—I do not mean merely for investment in Government securities—and by the development of the banking and investment habit would make available for remunerative expenditure in India a larger portion than she now does of the surplus which she earns annually by the export of her products, not only would an immense impetus be given to the commercial and industrial development of India's resources and new and attractive fields opened for the employment of her educated young men, but the process of converting external debt into internal debt could be very greatly accelerated. In two years the tax-payer of India has managed, without increasing his external obligations, to purchase for his own use and profit the equity of the East Indian Railway, the Great Indian Peninsula Railway and the Delhi-Umballa-Kalka Railway. Is not this an object lesson of what the future may have in store if we set our minds wholeheartedly to the development of our own internal resources by the wise application and investment of our own internal capital? The Government are doing what they can to forward the movement, but much must depend on private enterprise and initiative, on the spread of education of the right kind and on the combating of what has been well designated by my friend Mr. Rushbrook Williams as India's "uneconomic tradition which does not recognise the production and accumulation of wealth as being among man's legitimate aims." There are those, I know, who fear that acceptance of the legitimacy of such an aim would involve a prostitution of India's highest self to ignoble ends. What shall it profit a man if he gain the whole world and lose his own soul? If I believed that India's adoption of this western economic doctrine would jeopardise the high achievements of India's speculative thought and sacrifice her spirituality to a materialistic and selfish creed, I would unhesitatingly range myself with the opponents of change. I do not think it is open to challenge that the depths of understanding of man's relation to the Infinite which have been attained by the best of India's speculative thinkers hold out to Western civilisation as it exists to-day a hope of spiritual progress—I stress the word "progress"—which is an essential complement and corrective to the materialism which springs from over-emphasis on the practical business of conquest of Nature's secrets and their compulsion to man's service. India long ago revolutionised mathematics and provided the West with the key to the most far-reaching of all among the mechanical instruments on which its control of nature has been built, when it presented to Europe through the medium of Arabic the device of the cypher upon which all modern systems of numeration depend. Even so, India, to-day or to-morrow, will, I feel confident, revolutionize Western doctrines of progress by demonstrating the insufficiency and lack of finality of much of the West's present system of human values. But I do not think that the denial of all value to western endeavours to increase the production and accumulation of wealth is essential as a support to the Indian philosophy of life. I hold that increased production and accumulation of wealth are a means—in themselves indifferent, neither good nor evil—but an indisputable means towards the attainment of a higher ideal, the broaden-

ing and deepening of life's meaning for the individual and still more for the mass of mankind. What matters essentially is the purpose with which they are striven after, and East and West alike can and ought to strive after them as a means to a higher end. It is an Indian commentator on Mr. Rushbrook Williams' challenge who has said that the trouble is that this uneconomic tradition has not made the Indian less materialistic than the European, but it has made him a worse materialist.

38. *Post Office Cash Certificates.*—Among the instruments of our policy of encouraging the investment habit, the Post Office Cash Certificates takes a prominent place. This security combines in itself features belonging to savings bank deposits, in particular the facility for encashment at any time and protection against any risk of depreciation in value, together with some of the characteristics of an investment. It may be regarded as the ideal security for the very small investor enabling him to cross the bridge dividing a depositor in a savings bank from a holder of marketable investment securities. It has been observed in England, and is no doubt true in India also, that a considerable portion of the money withdrawn when Savings Certificates are cashed is not really thereby withdrawn from investment altogether, but is used for the purpose of reinvestment by the holder, for example, in house property, in the purchase of a business or in a marketable security of some kind. The money would very likely not be saved at all if it had not first of all been attracted to the profitable purpose of the purchase of one and then another cash certificate. It is then accumulated for a period at compound interest and when it comes to be withdrawn the sum, now grown to larger dimensions, is added to the invested capital of the country, and all the time a new class of small investor is being created by this process. During the year the popularity of the Post Office Cash Certificate has been even more pronounced than before and any action tending to check the growth of the habit of investment in cash certificates would be contrary to the true interests of India.

39. At the same time it must be realised that the rate of 6 per cent. compound interest, which is obtainable on a cash certificate held until maturity, is now unduly high when regard is had to the general fall in the rate of interest obtainable on other Government securities. We are moving on, as I have already said, towards a period when even 5 per cent. will seem a high rate of return on an investment issued on the security of the Government of India. The recent action of the Imperial Bank of India in reducing its rate of interest for savings bank deposits to 3½ per cent. may be cited as a further proof of the passing of the period of high interest rates generally. We are therefore considering the question of making some alteration in the terms on which the Post Office Cash Certificates are at present offered for subscription, while at the same time introducing certain new measures which will add to the popularity of these certificates and prevent any reduction in the yield from checking seriously the growth of the habit of investing in them. I have observed recently some criticism of the Government's policy in offering these certificates for sale on the ground that the growth of bank deposits is thereby checked.

In so far as these complaints have reference to the high yield at present obtainable, the reduction which we contemplate should remove any ground for objection. But I take issue with these critics when they imply that the general policy of issuing cash certificates militates against other forms of saving and depositing of savings with banks. No truth has been more firmly established by the experience of all the countries which have adopted and extended the system of cash certificates or corresponding securities than that the general stimulus to saving and investing which they give reacts beneficially on all other forms of saving.

40. The Government of India are not infrequently accused of want of elasticity in their approach to financial questions and lack of imagination and of sympathy with the burden of the tax-payer of the day. I take the accusation of want of elasticity as a compliment. It can, I think, mean little more than that we have a definite policy and stand by it. Imaginative finance is apt to mean a capacity to budget for imaginary receipts which fail to accrue. The easiest road to popularity for a Finance Member is the adoption of a policy of making posterity pay. I have already drawn attention to the really striking improvement in our credit and in the figures of our Public Debt which has resulted from strict adherence to the principles of avoiding all borrowing for other than truly productive purposes and making adequate provision for reduction or avoidance of debt. The common complaint against this policy is that it adds to the burden of the tax-payer of to-day by postponing the date when Provincial contributions can be further relieved and taxation reduced. I challenge even this conclusion. The direct result of our policy on the Budget figures for 1926-27 is that our total charge for interest is over 1 crore less than in the revised estimate for 1925-26 and 3-44 crores less than in 1923-24. A continuance of this policy is certain to lead, in the absence of untoward incidents, to a considerable further reduction in the charge for interest in 1927-28 and future years. Departure from it would have disastrous effects on the rate of interest which we should have to pay for renewals of our maturing debt and for the new capital required for reproductive purposes. If we are able this year to bring to an end the unhappy history of the Cotton Excise Duty, it is largely because of the reduction in our interest charges. Nor is it only the tax-payer of the Central Government who benefits by the results of this policy. The figures I have given relate to the net charge for interest in the Central Budget alone. If railway rates and fares are in process of reduction, it is in part due to the reduction in the charge for interest on capital, present and future, invested in our railway enterprises. If some of the Provincial Governments have received relief in regard to their Provincial contributions and if they and the other Provincial Governments are hoping for further relief, it is to an appreciable extent the reduction in our interest charges which has enabled us to do what we have done and which justifies our hope and theirs of further relief. Not only so, but the reduction in the charge for interest directly affects their own budgets, in that it serves to reduce the rate which they have to pay for their borrowings from the Central Government. A year ago the House showed its recognition of the wisdom of our

policy regarding provision for reduction and avoidance of debt by endorsing that policy and voting in full the demand in which that provision was included. To-day I am able to show to the House the direct benefits of its wise action in this matter, and I trust that the House and the country will now realise that it is not from any desire to maintain taxation at a higher level than is absolutely unavoidable that we insist on the debt policy which we have adopted, but that such a policy is directly calculated to bring real advantages and real relief to the tax-payer of to-day as well as to the tax-payer of to-morrow.

41. *Improvements in financial machinery.*—Before I pass on to the Budget estimates for 1926-27, I desire to refer briefly to some not unimportant changes which have been made this year in the form of the documents which will shortly be placed before the House. A year ago, as the House will remember, we introduced various changes in the form of the Demands for Grants in the light of observations made by the Public Accounts Committee. This year we are in possession of the results of an inquiry conducted at the request of the Public Accounts Committee into the possibility of improving the appropriation reports on lines suggested by that Committee. The Auditor General's recommendations were considered by the Public Accounts Committee in August last and received their general approval, and their wishes are being carried out in the Appropriation Reports for the year 1924-25 now under preparation. In order to bring the Demands for Grants into general conformity with the Appropriation Reports and thereby to facilitate comparisons between estimates and actuals, corresponding changes have been made in the form of the Demands for Grants for 1926-27. Each grant is now shown sub-divided into a number of sub-heads and the actual expenditure will be accounted for under each, so that the Public Accounts Committee, when they scrutinise the final accounts, will be able to compare without difficulty the actual expenditure with the budget provision under each sub-head and to fulfil more easily their constitutional task of examining the extent to which savings under one sub-head have been utilised by the Executive Government towards extra expenditure under another. The existing division by circles of account has, however, been retained and details of expenditure are given in the same fullness as before. Another change which will jump to the eye of anyone using these volumes is that we have reduced most of them to octavo size—a change which effects a considerable reduction in the cost of printing. It is not possible to alter the size in all cases this year, but our intention is to complete the process of conversion to octavo size in full a year hence.

42. A separate demand will be included in the 1926-27 Demands for Grants for expenditure in connection with the separation of Audit from Accounts in the United Provinces. This measure has been advocated by the Retrenchment Committee and by the Reforms Enquiry Committee from different points of view. The latter Committee held that separation of Provincial from Central finance was an essential preliminary to any appreciable advance towards provincial autonomy in financial matters, but before such separation can be accomplished, Provincial Governments must be in control of their own Accounts.

Audit, however, appears to be a subject which should remain as at present in the hands of a single authority, the Auditor General, all over India. The separation of Audit from Accounts is therefore involved as a preliminary to further advance and it appears to offer other incidental advantages. I need only mention two at present. The new system of accounting which we propose to introduce greatly facilitates a closer and more efficient control of expenditure by the Department responsible for that expenditure as a continuous process during the period of the expenditure. The Audit department, on the other hand, is relieved from the mechanical routine duties involved in the present system and its audit becomes more searching. With the approval of the Secretary of State, therefore, we have decided as an experimental measure to introduce the new scheme of separation, as from 1st April 1926, in the accounts of the United Provinces whose Government have expressed their desire for its introduction.

BUDGET ESTIMATES FOR 1926-27.

Expenditure.

43. *Military expenditure.*—The form in which the detailed Military estimates will be placed before the House has not been materially altered as has been done in the case of the Civil estimates, and the changes are confined to a more logical rearrangement of minor heads. As Honourable Members are aware, a Committee has been appointed to investigate the system of Cost Accounts at present in force in the Army, with a representative of the Public Accounts Committee of this House among the members. Our experience of the present system of cost accounts during the last four years and the fact that the British Government have recently decided to introduce radical modifications into the system of cost accounting in the British Army led us to the conclusion that such an inquiry had become necessary in India. Material changes in the form of the military estimates have therefore to be postponed pending the examination of the recommendations of that Committee. Fuller explanations have, however, been given of the various details of the military estimates in view of the desire expressed in the course of the Budget debates last year by members of this House.

44. The net military expenditure for the year 1926-27 is estimated to amount to 54.88 crores, i.e., a reduction of 1.37 crores as compared with the Budget estimates for 1925-26, thus marking a further stage in advance towards the goal set by the Retrenchment Committee. The provision for established charges amounts to 54.24 crores, the balance representing remnants of special post-war charges. The figure of 54.88 crores includes a sum of 66 lakhs for the payment of gratuities to demobilised officers, this being the last year which will be burdened with a charge of this character. 23 lakhs have been provided for the completion of the building programme in progress in Waziristan and for the Royal Air Force. On the other hand, we appear for the moment to have come almost to the end of the surplus war stores which have been a feature on the credit side of the account for some years past. We are allowing for a credit of only 25 lakhs under this

head as compared with 70 lakhs in the Budget estimates of 1925-26 and 1,10 lakhs in 1924-25. The figure of 54.24 crores net for established charges includes a sum of approximately 60 lakhs for new urgent measures mainly of a non-recurring nature for the purchase of new equipment.

45. Among the more salient features in the new estimates I may mention first the disappearance of provision for one British Cavalry regiment, costing a sum of 22 lakhs a year, which has now been dispensed with, this being the last of the specific reductions of the strength following on the recommendations of the Retrenchment Committee which remained to be carried out. Charges for pensions in India and in England show a recurring reduction of 37 lakhs, while payments to the War Office for British transport charges have been brought down by 17 lakhs. It has been necessary to provide an additional 20 lakhs owing to higher prices for articles of food and forage, and an additional 20 lakhs is also included for the purpose of accelerating the programme of electrification of barracks and of building of new lines for Indian troops. As a set-off to this last liability, an additional credit of 20 lakhs is anticipated from the disposal of surplus military lands and buildings.

46. Our total expenditure on military services, including the Army, Marine, Military Works, and the Royal Air Force, amounted in the year 1920-21 to 87.40 crores net, of which about 20 crores represented special expenditure on operations in Waziristan. With the cessation of these operations, the Budget estimates for 1922-23, which formed the basis of the Retrenchment Committee's investigations, showed a net total expenditure of 67.75 crores. The recommendation of that Committee was that the Budget for 1923-24 should be fixed at 57½ crores, subject to such additions as might be necessary in view of the delay which would ensue in carrying out the changes recommended and in order to meet special expenditure in Waziristan, etc. The Committee went on to say that for subsequent years the adoption of their recommendations should enable the estimates to be reduced to 57 crores, irrespective of savings due to further economies or fall in prices, and they expressed the opinion that continuous efforts to ensure further reductions should, in combination with the expected further fall in prices, enable the military budget to be reduced to 50 crores net after the lapse of a few years. The actual expenditure of the year 1923-24 amounted to 56.23 crores and the first stage of 57 crores mentioned by the Retrenchment Committee was thus passed in the first year. The figure of 56.23 crores included heavy expenditure on gratuities to demobilised officers and in Waziristan, but these abnormal items were counterbalanced by credits from the proceeds of sale and utilisation of surplus stores. The Budget for the year 1923-24 allotted a net sum of 62 crores for military services. This was reduced in the Budget for 1924-25 to 60½ crores, but by the time when the Budget for 1925-26 was under consideration the actual effect of the retrenchment operations, which it had been difficult to gauge in advance, had become apparent, and it was possible to reduce the budget provision for 1925-26 to 56.25 crores net.

47. The following table brings out the results achieved at a glance:—

Net expenditure of Military services.

	(In crores of rupees.)					
	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.
Budget estimate	66.82	67.75	62.00	60.25	56.25	54.88
Revised estimate	69.35	67.09	59.74	56.33	56.28	
Actual expenditure	69.81	65.27	56.23	55.63		

These figures include certain disturbing items both on the credit and debit side, and it is therefore of special interest to compare the true figures of the established charges, that is, the normal cost after elimination of special charges such as those for demobilisation of surplus officers and special credits for the eating down of surplus stores. In comparing these figures with the figures given by the Retrenchment Committee, Honourable Members should bear in mind the fact that certain charges amounting in 1926-27 to 39 lakhs, of which the most important are the charges for Customs duty on imported stores and the cost of Stationery and Printing, have been added to the military estimates since 1923-24, as the result of new decisions regarding classification.

Adjusted figures of Established charges.

	(In crores of rupees.)			
	1923-24.	1924-25.	1925-26.	1926-27.
Estimate	81.9	59.4	55.0	54.2
Actuals	56.7	55.8	55.2	

(Revised estimate.)

48. I cannot allow this opportunity to pass without referring once again to the deep debt of gratitude which I owe to the late Lord Rawlinson for his wholehearted co-operation and earnest determination to secure economy in expenditure on military services. His untimely death meant a grievous loss to me—I lost a personal friend and a colleague to whom I owed more than I can say—and India lost a true friend. The ideal at which he constantly aimed was an Army in India not larger than he regarded as absolutely essential in India's interests, adequately equipped and fully trained, so that India might obtain the maximum service from a fully efficient force at the minimum cost. Our military expenditure was kept during his regime under constant scrutiny by the Finance and Army Departments with the object of securing further economies. I gladly add that this policy has been continued under his successor and has the full support of His Excellency Sir William Birdwood. I am confident that adherence to this policy will result in still further reductions in our military expenditure without the sacrifice of that essential security which must always be our first aim.

49. We are fortunately able to foresee considerable savings of an automatic character in our established charges in future years, as the result of the reduction of the rates of pay of the British soldier which came into

effect in October, 1925. The immediate saving for 1926-27 under this head is not appreciable as the reduced rates of pay affect only new recruits, but it is estimated that, taken in conjunction with the reductions below present cost which will in due course result from the recent revision of the pay of officers in July, 1924, the savings from this source should amount to 12 lakhs in 1927-28, increasing annually to about 80 lakhs in 1930-31, and about 1½ crores in 1933-34. Before leaving the military estimates, I must refer briefly to the question of stocks held by the Army on which I commented last year. During the course of the year the whole question has been completely examined and considerable modifications are necessary in the figures then given which were based only on information available at headquarters. A full statement of the balances now disclosed will be found in the volume of detailed estimates. The amount of stocks held proves to be appreciably in excess of the amount indicated in the figures placed before the Retrenchment Committee, and of those on which we have hitherto been working. One of the terms of reference to the expert committee of inquiry into the arsenals and ordnance depôts which I mentioned earlier in my speech is the examination of surplus and obsolete stocks, and I have little doubt that a further reduction will be effected as the result of this inquiry.

50. *Civil expenditure.*—I now turn to our estimates of Civil expenditure. The total figure of Civil expenditure in the revised estimates for 1925-26 is 41.46 crores; the corresponding figure for 1926-27 is 41.76 crores. This small increase, which amounts to 80 lakhs, conceals a big decrease. In 1925-26 we had a big non-recurring credit, originally estimated at 1.29 crores but now ascertained in the revised estimates to be 1.81 crores on account of the transfer of postal and telegraphic stores (including the stores of the Indo-European Telegraph Department) from Revenue to Capital. The chief feature of the expenditure of 1926-27 is the reduction, whose significance I have already endeavoured to explain, of approximately 1 crore in the charge for interest. For market debt the charge for interest in 1926-27 shows a reduction of 1.79 crores on the current year's figures partly because of the effects of our conversion loan and partly because we were able to finance all our own capital expenditure including railways and the capital expenditure of Provincial Governments without adding to our market debt. On the other hand, there is an increase of 75 lakhs under Interest on miscellaneous obligations which includes interest on provident and similar funds, savings bank deposits, cash certificates and unfunded debt generally. The net reduction in interest charges is therefore, as already stated, about one crore.

51. A drastic reduction of the area under cultivation in the United Provinces by one-third results in a considerable reduction in our expenditure on opium. A further reduction is anticipated in the near future as the result of the substantial reduction in the prices paid to cultivators. These steps had already been taken, in consideration of the large surplus of stocks that we at present hold and of future requirements, before we arrived at the

decision announced recently to recommend to the Legislature a policy of progressive reduction and eventual extinction of our exports of opium. On this important question of policy I need say no more at the present moment beyond drawing attention to the fact that it foreshadows the progressive reduction and eventual disappearance of a head of revenue which at present brings us in approximately 2 crores a year.

52. *Additional expenditure on beneficial services.*—Our estimates of Civil expenditure include increased provision for what I may call beneficial services. I drew attention a year ago to the increase in the current year's estimates under these heads and a recent debate showed that the House shares the view of the Government of India that some addition to expenditure in these directions is both desirable and proper, and that the Finance Department's motto of wise expenditure within our available resources and avoidance of waste rather than retrenchment at all costs is endorsed by public opinion. Among new items and increases in existing items of expenditure on beneficial services included in the Demands for Grants I may mention an enhanced grant of 8½ lakhs to the Indian Research Fund Association, an increase of about a lakh for education in the North-West Frontier Province, as well as a non-recurrent grant of about 1½ lakhs for a new building for the Government High School at Peshawar, a further grant of Rs. 50,000 for the construction of the Victoria Hospital at Ajmer and a similar grant towards Dr. Shroff's new Eye Hospital in Delhi. We have increased the grants to the Benares and Aligarh Universities by Rs. 25,000 each and that to Delhi University by Rs. 10,000 and have provided 2 lakhs each as the first instalments of non-recurring grants to the two first named Universities. Additional funds have been provided for research at Coimbatore, Pusa, and Muktesar, and for the development of the Dairy Farms at Bangalore and elsewhere and of the Anand Creamery recently taken over from the Military Department, and further provision has been made towards the completion of the new Forest Research Institute at Dehra Dun, where over 60 lakhs out of a total sanctioned programme of over a crore has already been spent.

53. The provision for reduction or avoidance of debt in accordance with the plan set out in the Government of India Resolution, dated the 9th December, 1924, requires 4.83 crores in 1926-27 or practically the same figure as in 1925-26. The Government of India propose, however, to make two changes which affect the total amount of expenditure under this head in 1926-27. Two years ago, on the passing of the amendment to the Sea Customs Act, the practice was introduced of adding to the provision for reduction or avoidance of debt a sum equal to the Customs duty on stores imported on capital account, including stores for the use of State-managed railways. I promised a year ago to reconsider this practice in the light of criticisms raised in regard to it in this House. There are objections in principle to inflating revenue at the expense of capital. Our object in amending the Sea Customs Act and making Government stores liable to duty was clearly not to increase the Customs revenue at the expense of our capital.

charges. I recognise, however, that there are arguments which can be brought forward on the other side, in view particularly of the fact that the railways pay a contribution to general revenues on the basis of their capital expenditure, including whatever may have been paid in Customs duty, and that railway rates and fares are calculated with reference to the capacity of the railways to earn profits on the whole of their capital expenditure. We have therefore decided to meet the views expressed by critics in this House a year ago and omit this portion of the provision for redemption of debt. An opportunity for reconsidering the whole question can be taken at the expiry of the five-year period for which the Debt Redemption scheme is in force.

54. The second proposal which the Government of India are making in this connection will be found enshrined in a clause in the Finance Bill dealing with the disposal of the sums received by India from Germany on Reparation account. These sums represent India's share of the amount allocated to the British Empire out of the Dawes annuities. The actual allocation is full of complications. The payments by Germany for all treaty charges under the plan adopted vary from 1,000 million gold marks at the start to 2,500 million gold marks in the fifth year; thereafter they are to be fixed at the latter sum together with a supplement computed according to an index of prosperity. The annuities are payable in German currency and the amount to be transferred to Germany's creditors outside Germany has to be decided by a Transfer committee with reference to the capacity of Germany to make deliveries in kind or in cash without endangering the stability of the mark. Before the total amount so transferred outside is distributed, a number of charges have to be deducted, including, for example, the cost of service of Germany's £40 million external loan, the cost of the Reparation Commission, the amounts allocated towards the payment of the Army of Occupation and of the Belgian War debt, and other items. The exact amount available for distribution is thus at all times problematical and extraordinarily difficult to forecast. The British Empire as a whole receive 22 per cent. of the total sum available, and India receives 1.2 per cent. of the British Empire's share. The best calculations that I have been able to make, which necessarily are based on somewhat arbitrary assumptions, point to an annual receipt by India over the next few years of sums varying between a minimum of £66,000 and a maximum of £250,000. In 1924-25 we received £37,400 and we expect to receive about £66,700 in 1925-26. The present estimate of receipts in 1926-27 is about £120,000.

55. The reparation receipts may be said broadly to cover in the case of India one or other of the following classes of expenditure: (a) pensions and allowances payable by the Government to war sufferers; (b) expenditure in replacing losses by enemy action or in repatriation of enemy nationals; (c) compensation payable to private persons and local bodies. So far as expenditure on replacing stores lost by enemy action and the cost of repatriation of enemy nationals are concerned, the receipts represent

recovery of expenditure previously incurred by the Government. Such expenditure added to the deficits of past years and was in effect met from borrowed funds. Recurring expenditure is still being met by the Government in respect of pensions and allowances. Some part has already been covered, but the major part will come in future years. The receipts which the Government now obtain from the Reparation account represent a contribution towards the capitalised value of such payments. The compensation payable to private persons and non-Government bodies stands on a different footing. The receipts on this account are not really receipts of the Government of India except in a technical sense.

56. It seems reasonable to utilise receipts from Germany under all but the last head for reduction or avoidance of debt rather than to treat them as an ordinary item of revenue. Only by this procedure will there be annual savings in interest in future to correspond to annual payments on account of pension. The Government propose therefore that payments for compensation shall be deducted from the total reparation receipts and applied for the purpose for which they are intended, and that the balance of our reparation receipts shall be devoted to the reduction or avoidance of debt. By thus applying these special receipts, the Government will I think be following the procedure which is most in accordance with financial propriety, and we shall at the same time avoid disturbance in our own Budget estimates arising out of the fluctuating and uncertain character of these receipts. This proposal and the proposal to bring to an end the practice of setting aside for debt purposes a sum equal to the Customs duty on stores imported on capital account are intended to be taken together. The result of the two proposals combined will be to relieve our revenues of a charge of about 7 lakhs if our estimate of receipts on reparation account is approximately correct.

57. This may perhaps be a convenient point at which to mention that we are continuing for 1926-27 the assignments on account of Customs duty on Government stores introduced as a temporary measure two years ago to those Provinces which have not yet obtained a reduction in their contributions to the Central Government. The only important item in this connection is a sum of 5.39 lakhs payable to Bombay. It is obviously desirable that these assignments, which are objectionable in principle, should be extinguished at an early date and we propose very shortly to take up this question in connection with the examination of the Report of the Taxation Enquiry Committee recently published, with special reference to their proposal for modifying the existing Devolution Rule 15 in regard to the payment to the Provinces of a share in Income-tax receipts.

Revenue, 1926-27.

58. *Customs.*—I now turn to the estimates of our revenue. It is necessary to anticipate some diminution in the imports of sugar, but we may reasonably look for compensation for the sums thus lost in increased receipts from duty on cotton piecegoods and in what I may call the normal

growth under other heads. On this basis the net revenue under the head of Customs is estimated at 48.15 crores, or an increase of 1.30 crores over the revised estimate for the current year. This figure includes 1.75 lakhs of revenue from the Cotton Excise Duty. This may be regarded as a fairly conservative estimate of what the yield from the duty would be if it were continued. The yield in 1924-25, the last year in which the duty was fully collected, was 2.18 lakhs, while the highest figure during the last six years was 2.31 lakhs.

59. *Taxes on Income.*—The main change in the trade conditions of 1925-26 as compared with the previous year is that the cotton mill industry in Bombay has passed through what I hope will prove to be the period of its severest depression. We have to allow therefore for an appreciable reduction in our revenue from Bombay under the head of Taxes on Income. Conditions elsewhere have been on the whole better than in the previous year and our administration is increasing all the time in efficiency. We have adopted for 1926-27 a figure of 16.15 crores of receipts under this head or 10 lakhs less than our revised estimate for 1925-26. This represents 1.20 crores less than the Budget estimate for the current year.

60. *Salt.*—I estimate our receipts under the head Salt at the figure of 6.90 crores, which assumes that accumulated stocks will have been worked down by the end of this month.

61. *Opium.*—The gross receipts from opium are estimated at 59 lakhs below the revised figure for 1925-26, which included a large adventitious receipt under Excise opium owing to the taking over by the Provincial Governments of stocks held at treasuries. The net receipts are estimated to be practically the same as this year, namely, 2.26 crores, owing to reductions in expenditure already referred to.

62. *Railways.*—As the House is aware, the total contribution from Railways to general revenues during 1926-27 is estimated at 6.01 crores. This represents simply the amount of the fixed contribution based on the actual receipts for 1924-25, which was a particularly profitable year. It assumes that the net gain from Railways, after deducting the contribution, will not exceed 3 crores and will accordingly be transferred in full to the railway reserve.

63. *Posts and Telegraphs.*—The working expenses of the Indian Posts and Telegraphs Department for 1926-27 are estimated at 10.17 crores, or 61 lakhs more than in 1925-26. The growth of working expenses is due in part to the absence of the non-recurrent features which, as already explained, made the figure of 1925-26 less than the normal, and in part to an increase in expenditure amounting to 10 lakhs due to the decision of the Railway Department to withdraw the concession of free railway passes to postal employes, and to the inclusion of a provision of about 19 lakhs for new measures designed to improve the emoluments and terms of service of the postal and telegraph staff. The concessions in the case of the postal staff involve an addition of 15 lakhs to our expenditure. The gross receipts have not kept pace with the increase in expendi-

ture, and we can expect an improvement of only 41 lakhs, making the total of our gross receipts for 1926-27 10.65 crores as compared with 10.24 crores in 1925-26. The Post Office account alone shows an estimated profit of 20 lakhs, but there is a loss of 20 lakhs on the Telegraphs and of 10 lakhs on the Telephones, owing largely to the fact that the charge for interest is proportionately heavier in the case of the latter services. The upshot is that the estimates of the year point to a loss of approximately 10 lakhs on the working of the department as a whole. I have, however, every confidence that a revival in trade will lead in due course to a considerable addition to our revenue from telegrams which has recently been disappointingly low, and that by next year the department will be completely self-supporting. To complete the picture I must add that owing to a reduction in traffic we expect, in addition, a loss of 6.7 lakhs in 1926-27 on the working of the Indo-European Telegraph Department.

64. The House will observe that in face of these figures it is impossible for us to contemplate any reduction this year in the rates for letters and postcards—a subject on which, after an interesting debate in this House a few weeks ago, further discussion was adjourned in order that the whole matter might be considered in its proper setting in connection with the Budget figures. The wisdom of the course then taken is now apparent. Such a reduction of charges as was then under consideration is clearly impossible unless the taxpayer is to be saddled with the burden of a heavy subsidy in relief of the customers of our postal and telegraph system. I know that a return to pre-war rates is keenly desired in many quarters in the House and in the country; nor would the Government desire to oppose such a reduction for a moment if they believed that it was within the range of practical politics. I desire, however, to put the question frankly before the House. There is in my view no probability whatever of a return to pre-war rates for letters and postcards except at the cost of a heavy and steadily increasing subsidy from the pocket of the taxpayer. It is desirable that we should face the facts boldly and not deceive ourselves or others by holding out false expectations.

65. The truth is that we are confronted by what I may call a secular change in conditions in India. The very cheap rates of postage to which India had become accustomed before the war were possible only because of the very low level of prices in India as compared with other countries. The last three-quarters of a century have witnessed a steady rise in the average level of prices throughout India—a rise which was the natural and inevitable outcome of the far-reaching changes which were gradually making their effect felt on the conditions of life in India. I may illustrate these changes with reference to figures on index numbers of prices going back to 1860. If we take the figure for the average of the year 1861 for wholesale prices in the United Kingdom and India as 100, the increase in the year 1924 in the case of India is represented by a figure of 251 and in the case of the United Kingdom by a figure of 142. If we go back only as far as 1914 and compare pre-war with present prices, the increase in

India is from 100 in 1914 to 163 at the end of December 1925. The corresponding increase in the United States is from 100 to 158, and in the United Kingdom from 100 to 153. In the face of these figures which, whatever doubts we may have as to the absolute accuracy of the calculations on which the index numbers are framed, are at least a reasonable guide to the general trend of events, it is impossible to expect that the Indian Postal Department should be able to carry letters or postcards at the rates prevailing in 1860 or even in 1914. We cannot expect wages and expenses to stay at a level below the average rise in prices generally. Unless therefore the future holds out the prospect of a considerable further fall of prices to at least the 1914 level—a development which would probably be undesirable in the general interests of India's prosperity—we must admit the logical conclusion that the day of the 3 pie postcard and the 6 pie letter is past beyond recall. Much as we may regret this inevitable conclusion, it is better that we should cease to delude ourselves with unrealisable hopes and should set ourselves to secure the maximum efficiency and the greatest possible facilities to the public from the department as things are to-day.

66. *Other receipts.*—Our estimates of revenue assume the continuance of the practice of appropriating to revenue the interest on the Paper Currency Reserve and the surplus of the Gold Standard Reserve over £40 million. We may, I think, assume that, whatever changes may be introduced as the result of the recommendations of the Royal Commission on Currency, the profit now obtained by the Government from these Reserves, whatever form they may assume, will not be substantially affected. In regard to other heads of receipt, extraordinary income from enemy ships will no longer accrue to us, and it is necessary to estimate interest receipts on a lower scale than this year.

67. *Surplus.*—We are now in a position to frame our balance sheet. The total estimated revenue for 1926-27 amounts to 133.43 crores, and the total estimated expenditure amounts to 130.88 crores. We are left with a surplus of 3.05 crores. I hasten to remind the House that the latter figure includes the sum of 1½ crores for receipts from the Cotton Excise Duty.

CONCLUSION.

68. To what extent can we regard this surplus as being free for us to dispose of? How far is it a recurring surplus? The House will observe that I have made no reference except in a very incidental way to the Report of the Taxation Enquiry Committee, or to the proceedings of the Royal Commission on Currency. The former's report has only recently come into the hands of members, and though incomplete copies have been available to the Government for a somewhat longer period, we came to the conclusion that the extremely interesting and instructive material which it provides demands more prolonged and more complete examination than was possible in the time at our disposal. I have therefore included in this Budget no suggestions for modification of our taxation system in

the light of the Committee's recommendations. Their recommendations will give all the Governments in India and their legislatures ample material for reflection in the course of the coming year. The report is, I think, a most valuable addition to our knowledge of the Indian taxation system, and in the compass of one volume we have here a complete survey of all the taxation at present imposed. Important additions to our understanding of the problem of the relation between Central and Provincial taxation are made in many passages in the Report. I take this opportunity to-day of thanking Sir Charles Todhunter and his colleagues for the hard labour which they have devoted to mastering their subject and for the instructive report which they have placed before us. So far as the present Budget is concerned, however, we are justified in assuming that, whatever decisions may be arrived at in the light of the recommendations of the Taxation Enquiry Committee, they will not affect the question of the disposal of this year's surplus.

69. The same assumption must be made in regard to the work of the Royal Commission on Currency. Our estimates assume the continuance of the present credits to revenue of the interest on Currency investments. They also assume an average rate of exchange of 18d. for 1926-27. It is impossible to anticipate the conclusions of the Commission and equally impossible, besides being very undesirable, to set aside any portion of the year's revenue as an insurance fund against possible repercussions on our Budget position in future years. Nor have we any present reason for regarding such an insurance as requisite.

70. In regard to other items in the Budget we have to remember that the receipts from Railways in 1926-27 are high; the earnings of the year 1925-26 were not as good as those of the previous year, so that our fixed contribution from Railways in 1927-28 may be less by as much as 79 lakhs than in 1926-27 if the actual figures for Railway receipts for 1925-26 confirm our revised estimates. Our opium revenue is also an uncertain factor. There is, however, no reason to think that this loss of income which must necessarily be spread over a period of years cannot be counter-balanced by growth of revenue in other directions. Our Income-tax revenue is exceptionally low at the moment and may certainly be counted upon to give a considerably increased yield in later years. Finally, we look for further economies in our military expenditure which still contains special items of a non-recurrent character.

71. After giving full weight to these various considerations, we have come to the conclusion that there is no undue risk in treating the whole of our surplus as a recurrent one. I have already confided to the House the secret that the Finance Bill includes provision for the final abolition of the Cotton Excise Duty, and the privilege of sharing with the Government in the credit for this historic achievement will belong to the Legislature when the Finance Bill is passed. This leaves us with a divisible surplus available for other purposes amounting to 1,80 lakhs. The House will I feel sure have no hesitation in agreeing that past expressions of

policy and the truest interests of the people of India alike demand that, after using 1½ crores of the sum at our disposal for the reduction of Central taxation, we should devote as much as we can of the rest to the relief of the Provinces. We accordingly propose to apply 1,25 lakhs to the further reduction of the Provincial contributions in accordance with the Devolution Rules. The relief thus afforded will go to the extent of 57 lakhs to Madras, 33 lakhs to the United Provinces, 28 lakhs to the Punjab and 7 lakhs to Burma.

72. The total of the Provincial contributions fixed under the Meston Settlement was 9.83 crores. A year ago we made a permanent reduction of 2½ crores and provided 68 lakhs for the continuance of the temporary remission of Bengal's contribution. With the additional 1½ crores set aside now, we shall have reduced our reliance on the Provinces by 4.88 crores in all, that is not very far short of half the total. The Provinces whom fortune and the Devolution Rules favour this year are (apart from Bengal) the same as those which obtained the biggest benefit a year ago. But the turn of the other Provinces will come. They are all brought much nearer fruition by the events of the last two years and will no longer feel that the prospect of remission does not interest them. Meanwhile the taxpayers if not the Government of the Province of Bombay in particular and of other Provinces in a lesser degree secure the benefit of the repeal of the Cotton Exise Duty, the relief given in this budget being divided between the Central taxpayer and the Provincial Governments.

73. At an earlier stage in my speech, the approaching end of the life of this Assembly tempted me to compare the figures of India's debt now with those of three years ago. Before closing let me indulge in a further glance backwards and a glimpse into the future. The first Assembly was burdened with the upgrateful task of imposing extra taxation in order to bridge the yawning gap between revenue and expenditure, a task that at one time seemed well-nigh hopeless. The Budget of 1924-25 which coincided with the first session of this House signalled our definite escape from the era of deficits and brought the Salt tax back from Rs. 2-8 a maund to the present rate of Rs. 1-4. For this reduction, though no doubt it had the assent of the majority, only the minority in this House who voted for the second reading of the Finance Bill can claim to share the credit with the Government and the Council of State, and the Government did not conceal their view that a higher rate, which might have enabled us by now to have achieved the complete extinction of the Provincial contributions, had much to commend it. But, if this House dealt in a step-motherly way with the Budget of 1924-25, it placed to its credit six months later the convention in regard to the separation of railway finance from general finance, a reform which I regard as the greatest financial achievement of the years under review. We have made other advances in our financial machinery during this period, such as the establishment of the Provincial Loans Fund and the formulation of a clear policy of reduction and avoidance of debt, and we have paved the way for other advances, as for instance, the separa-

tion of Accounts and Audit, and the reform of the Indian currency system. We have moreover greatly improved the mechanism of the Assembly's financial control. But the new arrangement for dealing with our Railway Budget remains the outstanding feature. It has cleared the path for a continuous programme of railway construction and rehabilitation, and is the direct parent of the proposals for progressive reduction of rates and fares which has now been put in hand, while it has relieved our general finances of an intolerable burden of uncertainty. The Delhi session of 1925 found the Government and the Assembly working together, as you, Sir, will remember, to put the finishing touches to our Debt Redemption plans and to make a substantial beginning of the remission of Provincial contributions. To-day we are continuing last year's work while at the same time celebrating the happy extinction of the notorious (even if sometimes maligned) Cotton Excise Duty.

74. I ask those who profess unending dissatisfaction with the Reforms and denounce them as a sham and the Government as insincere and unresponsive, does the financial story of these three short years justify depression or despondency? In that brief space we have immensely improved our financial machinery and have progressed nearly half-way on the road to extinction of the Provincial contributions, and we have reduced the Salt tax and abolished the Cotton Excise Duty. For five years the Reformed Legislatures have been at work in India. It is true that weather conditions have on the whole favoured us and that the level of taxation is still high in comparison with 1914, though not in comparison with other countries. But to me it seems undeniable that the association of chosen representatives of the people of India with the Executive Government and their constant interaction the one upon the other in the Assembly and the Council of State have enabled India to win through the inevitable discomforts of the period following the war with a measure of success that makes her financial position the envy of other nations and could scarcely have been possible without the Reformed Constitution. The members of this House appear to me sometimes to fix their attention so earnestly on what are called political questions as to overlook the steady advance towards the goal of constitutional self-government which is being registered day by day in administration and in finance. Mr. Coates, the present Prime Minister of New Zealand, made a confession of faith in a speech delivered last May soon after he succeeded to the Premiership, which deserves, I think, the careful consideration of those who are working for India's future. "It may seem", he said, "that I have unduly stressed the financial and administrative aspect of Government. My six years of Ministerial service, however, have convinced me that intensive application of the principles of sound finance to every function of Government is ever essential in the public interest. It is from that solid foundation created that we can build the structure of our public services and enable the development of our country to proceed. . . . Only by judicious care and foresight in setting our financial foundations is it possible to devote the necessary attention to all our citizens".

75. The Government of India and this Assembly have not always seen eye to eye on financial questions; but the record shows that we have worked together, not without reward, to establish a foundation of financial stability far more firmly based than when we began. We leave to the next Assembly the task of building on those foundations with the firm assurance that, though all the difficulties are not surmounted and though new anxieties may arise, they will not have to complain of our work of preparation and will find their financial heritage a source of strength in advancing to the solution of the political and constitutional tasks which await them. (Loud applause.)

Statement comparing the actual Revenue and Expenditure of the Central Government (Imperial Revenue and Expenditure before the Reforms) with the Revised Estimate for each year from 1915-16 to 1924-25.

(See paragraph 3 of speech.)

(In thousands of Rupees.)

	REVISED ESTIMATE.			ACTUALS.		
	Revenue.	Expenditure.	Surplus (+) Deficit (-)	Revenue.	Expenditure.	Surplus (+) Deficit (-)
1915-16	78,89,06	81,58,21	-2,69,15	80,00,96	81,79,36	-1,78,39
1916-17	97,25,67	88,27,37	+8,98,30	98,53,10	87,81,37	+11,21,73
1917-18	1,14,84,48	1,06,27,74	+8,56,74	1,18,70,59	1,06,57,52	+12,81,06
1918-19	1,27,94,85	1,34,79,88	-6,85,23	1,30,40,66	1,36,13,72	-5,73,06
1919-20	1,44,07,56	1,59,18,67	-15,11,11	1,37,18,99	1,60,79,37	-23,65,29
1920-21	1,35,10,36	1,48,08,61	-12,98,26	1,35,63,33	1,61,64,17	-26,00,84
1921-22	1,13,15,33	1,41,94,53	-28,79,20	1,15,21,30	1,42,86,52	-27,65,02
1922-23	1,20,70,17	1,37,95,52	-17,25,35	1,21,41,29	1,36,43,05	-15,01,76
1923-24	1,31,36,04	1,29,89,97	+2,06,07	1,33,16,63	1,30,77,63	+2,39,00
1924-25	1,34,82,26	1,30,82,66	+3,99,58	1,38,08,92	1,32,35,66	+5,68,26

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