

Wednesday  
5th October, 1949

**THE**  
**CONSTITUENT ASSEMBLY OF INDIA**  
**(LEGISLATIVE) DEBATES**  
**(PART II—PROCEEDINGS OTHER THAN QUESTIONS AND**  
**ANSWERS)**  
**Official Report**

**Volume V, 1949**  
**(5th and 6th October, 1949)**

**Fifth Session**  
**OF THE**  
**CONSTITUENT ASSEMBLY OF INDIA**  
**(LEGISLATIVE)**  
**1949**



सत्यमेव जयते



**CONTENTS.**

---

Volume V— 5th and 6th October, 1949.

---

WEDNESDAY, 5th October, 1949—	PAGES
<b>Motions for Adjournment re—</b>	
Removal of Valuables from Srinagar by General Delvoie, the Military Adviser to U.N.C.I.P. . . . .	1—2
Acute shortage of sugar in the market . . . . .	2—4
<b>Papers laid on the Table—</b>	
First Annual Report of Industrial Finance Corporation of India . . . . .	4
Notifications under Bombay, Calcutta and Madras Port Trusts (Constitution) (Amendment) Act, 1948 . . . . .	5—7
Statement showing allocation of Seats to Commercial Bodies on Port Trusts of Bombay, Calcutta and Madras. . . . .	5—7
Industries (Development and Control) Bill— Extension of time for presentation of Report of Select Committee. . . . .	7
Indian Railways (Amendment) Bill—Extension of time for presentation of Report of Select Committee . . . . .	7
Indian Judicial Procedure Bill—Extension of time for presentation of Report of Select Committee . . . . .	8
Motion <i>re</i> Devaluation of the Rupee in terms of Gold—Discussion continued . . . . .	8—55
<b>THURSDAY, 6th October, 1949 —</b>	
Motion <i>re</i> Devaluation of the Rupee in terms of Gold—Adopted as amended . . . . .	57—101

THE  
**CONSTITUENT ASSEMBLY OF INDIA**  
**(LEGISLATIVE) DEBATES**  
**OFFICIAL REPORT OF THE FIFTH SESSION OF THE CONSTITUENT**  
**ASSEMBLY (LEGISLATIVE)**

---

Volume V—1949

---

**CONSTITUENT ASSEMBLY OF INDIA (LEGISLATIVE)**  
**DEBATES**

(PART II—PROCEEDINGS OTHER THAN QUESTIONS AND ANSWERS)

*Wednesday, 5th October, 1949*

The Assembly met in the Assembly Chamber of the Council House at New Delhi, at a Quarter to Eleven of the Clock, being the First Day of the Fifth Session of the Constituent Assembly of India (Legislative), pursuant to sub-section (2) (a) of Section 19 of the Government of India Act, 1935, as adapted by the India (Provisional Constitution) Order, 1947. Mr. Speaker (The Honourable Mr. G. V. Mavalankar) was in the Chair.

QUESTIONS AND ANSWERS

(No Questions: Part I not published)

MOTIONS FOR ADJOURNMENT

**REMOVAL OF VALUABLES FROM SRINAGAR BY GENERAL DELVOIE, THE MILITARY**  
**ADVISER TO U. N. C. I. P.**

**Mr. Speaker:** I have received notices of three Adjournment motions: two relate to the same subject and the third refers to another subject. I will read these motions:

“That this House do adjourn to discuss a matter of urgent public importance, viz., the behaviour of General Delvoie of U.N.O. and Military Adviser to the U.N.C.I.P. and authorities of the Lloyds' Bank, Srinagar with regard to the jewellery, etc. belonging to Sardar Effendi.”

The other Adjournment Motion relating to this subject is as under:

“I hereby give notice of my intention to ask for leave to make a motion for the adjournment of the business of the Assembly for the purpose of discussing a definite matter of urgent public importance, namely, the action of Lieutenant General Delvoie, Military Adviser to U.N.C.I.P. in removing valuables from a Srinagar Bank and delivering them to a person in Rawalpindi whom the Jammu and Kashmir Government had declared an enemy agent.”

I should like to know the facts about these to decide their admissibility.

**Dr. P. S. Deshmukh** (C.P. and Berar: General): Sir, I do not propose to move the motion standing in my name.

**Shri H. V. Kamath** (C.P. and Berar: General): Sir, I have given notice of two Adjournment motions: One relates to the action of General Delvoie in removing valuables from Srinagar to Rawalpindi. I do not wish to move it

[Shri H. V. Kamath]

at this stage. The other one which I have given notice of yesterday is about the acute shortage of sugar in the market. I do not know whether it has reached you.

**Mr. Speaker:** In short, the honourable Member does not propose to move the Adjournment motion relating to the action of General Delvoie.

*Statement regarding removal of valuable from Srinagar by General Delvoie of U. N. C. I. P.*

**The Honourable Shri Jawaharlal Nehru** (Prime Minister and the Leader of the House): Sir, I am perfectly prepared to make a statement, if the House so desires.

**Pandit Hriday Nath Kunzru** (U.P.: General): We should very much like to hear a statement about the Delvoie affair and matters ancillary to it.

**The Honourable Shri Jawaharlal Nehru:** I can quite understand. Sir, the interest of the House in this affair, which an honourable Member has referred to as the 'Delvoie Affair'. As a matter of fact, almost all the facts connected with it have already been published in the public press in the shape of correspondence which took place between the Jammu and Kashmir Government and General Delvoie. So, I need not repeat those facts. All that I have to say is what further steps have been taken in this behalf.

When the Government of Jammu and Kashmir referred this matter to us formally we took a grave view of the situation. We considered it serious and immediately referred the matter to the United Nations Commission. And there the matter stands. The letter of reference to the Commission has not been published in the press and it is not usual for such correspondence to be published at the early stage. But I might inform the House that the letter really consists in our drawing the attention of the Commission to this incident, and informing them that we consider it a serious matter and asking them what they propose to do about it. On receipt of their reply Government will consider what, if any, further steps should be taken in the matter. That is the position.

**Shri H. V. Kamath:** Now that the Prime Minister has made a statement on this subject, will you be so good as to allow questions thereon.

**Mr. Speaker:** The honourable Member knows the practice here. No questions are allowed.

#### ACUTE SHORTAGE OF SUGAR IN THE MARKET

**Mr. Speaker:** Now, the other notice "asks for leave to make a motion for the adjournment of the business of the Assembly for the purpose of discussing a definite matter of urgent public importance, namely, the acute shortage of sugar in the market".

I might state my *prima facie* reaction. To me, the matter does not appear to be either urgent or definite. I should like to know what the Honourable Food Minister has to say about it.

**The Honourable Shri Jairamdas Doabtram** (Minister of Food and Agriculture): I should like to make a statement explaining what has happened and leave it to the Chair to decide about this adjournment motion.

Some weeks ago Government was faced with rather a difficult situation in regard to sugar. As the House is aware, we had de-controlled sugar in 1947 and sugar continued to be distributed without any intervention by Government. It was only with regard to the fixation of prices that there used to be informal consultations and discussions between the Central Government and the Gov-

ernments of the United Provinces and Bihar and the industry. But even these prices were not fixed statutorily, because we had decided upon decontrolling sugar.

In the month of August, or towards the end of July, it became apparent that as the prices of sugar were rising Government would have to take some action. We found that up to the month of June the consumption of sugar was more or less at a normal rate. It is true that consumption had increased because during the period of control many persons who did not otherwise use sugar got accustomed to using sugar as sugar was rationed to all card holders. Secondly, the price of sugar had also been lowered from Rs. 35/7/- to Rs. 29/1/-. The result was some increase in consumption. But still, because there was a carry-over of two lakhs tons from the previous year it was felt that we would be able to reach the end of the year without any difficulty.

As the House is probably aware, production starts somewhere about the middle or third week of November; in some places in October and in some other parts of India in December. Round about the month of July two factors intervened. First of all, there was a talk of export of sugar to Pakistan and later on possibly also to the United Kingdom. That talk had its reaction on the market. The second factor was that an announcement was made that as a result of the increased consumption up to June and July a very small quantity of sugar remained with the factories. With about three to four months still ahead, the stock which was disclosed was definitely inadequate, probably meeting only half the needs. This itself had an effect on the market and very speculative purchases were made during those days. The factories also began to charge a premium. The result was an outcry that unless Government intervened, prices will continue to jump up and there was no knowing as to how high they would rise.

We, therefore, began to discuss this question with all the interests concerned. I had full discussions also with the Standing Committee of the Legislature. Later on we proposed certain measures and consulted the Provincial Governments with regard to those measures. Some of the Provincial Governments were against our interfering too much and were definitely against rationing of sugar. On the other hand, one or two Provincial Governments wanted that we should ration sugar. Ultimately we discussed the whole question in the Cabinet—first in the Economic Committee of the Cabinet and then in the Cabinet—and decided to take certain measures with a view to dealing with the difficult situation. We first of all froze all the stocks in the country. The U. P. Government had frozen the stock in their province about a week before with a view to conserving stocks and preventing their transfer to trade whom we might not be able effectively to control.

We sealed the stocks both in the U. P. and Bihar and the rest of India. Having sealed the stocks we fixed the price for sale of the frozen sugar. We had very limited resources at our disposal. Unlike foodgrains, sugar was not in our physical possession. It was in the factories. A good part of it had already been sold and the quantity which remained was inadequate for the remaining part of the year. Therefore, we felt it necessary to arm our Provincial Governments with complete powers to deal with the local situation. That meant that it was open to them to freeze the stocks with the dealers—wholesale or retail—and also to fix such distributing agencies as they preferred for the purpose of selling sugar at the controlled price to the people. Now, it is inevitable that where Government is faced with a situation where a certain commodity is definitely very much in short supply in relation to the demand, it is not possible, if Government distributes or rations the commodity, to give to the people the full quota, needed by them. Government had to choose

[Shri Jairamdas Doulatram]

between two alternatives—either to import more sugar to affect the price level and meet any deficit that there might be or to try and use such supplies of sugar as were at their disposal. Import was not possible because of dollar and other considerations. We felt that if the Provincial Governments were able to commandeer the stocks available either in the factories or with merchants with the exercise of the power we were giving them, we would be able to get over this period of difficulty in a month or two. The season for production of sugar in some factories in Madras continues in the month of October. Some of the factories in Bombay start in October. In the U. P. and Bihar it would be possible to start the sugar factories in the third week of November and in the rest of India it would be in the month of December. So it was for the intervening period of two months that we had to deal with this question of shortage of sugar. So far as the stocks in the hands of the Government are concerned, they are obviously not adequate to meet the full requirements of the people. Therefore, the provincial Governments have been asked to take whatever steps they think necessary to seize stocks and distribute them at the controlled price. Some provinces have felt that it would be better to allow the trade channels to function, and in co-operation with trade to distribute the sugar at certain fixed prices. After the seizure of the stocks it took a little time to make the allocations. As I explained, unlike foodgrains, we did not have physical control of sugar in any central or any provincial godowns. The sugar remained with the factories. In allocating to provinces, we had to tell them how much they had to take from which factories. We had to secure knowledge of the stocks with each factory, and it therefore took a few days to secure that knowledge and make the allocations. In the interval the provinces were not without any sugar because the merchants everywhere had stocks of sugar. We had armed the provincial Governments with the maximum power and allowed them to take in regard to such stocks whatever action they thought best in the interests of the local consumers.

**Shri Mahavir Tyagi** (U.P.: General): Has the Minister not a word of regret for the man in the street?

**Mr. Speaker:** I am not at this stage, concerned with the merits. In fact, the honourable the Food Minister went a little beyond the scope of his speech at the present stage. I wanted to know the facts to decide as to whether the matter is really urgent and definite. He has made a much longer statement than required; and his statement has confirmed my first reactions, and I do not propose to give my consent to this adjournment motion. That disposes of it at the earliest stage and we might now utilise the time to the U.A.M. subject for which this special session has been convened, otherwise we shall be taking up the time from the time allowed for the discussion of the devaluation of the rupee.

#### PAPERS LAID ON THE TABLE

##### FIRST ANNUAL REPORT OF INDUSTRIAL FINANCE CORPORATION OF INDIA

**The Honourable Dr. John Mathai** (Minister of Finance): Sir, I beg to lay on the table a copy of the Report of the Board of Directors of the Industrial Finance Corporation of India for the year ended 30th June, 1949, together with statements in the prescribed form of the assets and liabilities of the Corporation as at the close of the year and the profit and loss account of the Corporation for the year, in accordance with sub-section (3) of Section 85 of the Industrial Finance Corporation Act, 1948.

\*Not printed in the day's Debates, copy placed in the Library of the House—*Ed. of Debates*.

## NOTIFICATIONS UNDER BOMBAY, CALCUTTA AND MADRAS PORT TRUSTS (CONSTITUTION) (AMENDMENT) ACT, 1948.

## STATEMENT SHOWING ALLOCATION OF SEATS TO COMMERCIAL BODIES ON PORT TRUSTS OF BOMBAY, CALCUTTA AND MADRAS.

**The Honourable Shri N. Gopalaswami Ayyangar** (Minister of Railways and Transport): Sir, I beg to lay on the table:—

(1) a copy of each of the following notifications published under the Bombay, Calcutta and Madras Port Trusts (Constitution) (Amendment) Act, 1948:—

- (i) Ministry of Transport Notification No. 19-P(136)/48-I, dated the 12th March, 1949,
- (ii) Ministry of Transport Notification No. 19-P(136)/48-II, dated the 12th March, 1949,
- (iii) Ministry of Transport Notification No. 19-P(136)/48-III, dated the 12th March, 1949,
- (iv) Ministry of Transport Notification No. 19-P(136)/48-IV, dated the 12th March, 1949, and

(2) a copy of the statement showing the allocation of seats to Commercial bodies on the Port Trusts of Bombay, Calcutta and Madras and the panels of sectional interests approved for representation through their quota of seats.

## GOVERNMENT OF INDIA

## MINISTRY OF TRANSPORT

*Dated New Delhi, the 12th March 1949*

## NOTIFICATION

No. 19-P(136)/48-I.—In exercise of the powers conferred by subsection (2) of section 1 of the Bombay, Calcutta and Madras Port Trust (Constitution) (Amendment) Act, 1948 (XXXVI of 1948) the Central Government is pleased to appoint the 1st April 1949 as the date on which the said Act shall come into force.

S. CHAKRAVARTI,  
Joint Secretary to the Government of India.

## GOVERNMENT OF INDIA

## MINISTRY OF TRANSPORT

*Dated New Delhi, the 12th March 1949*

## NOTIFICATION

(Ports)

No. 19-P(136)/48-II.—In pursuance of sub-section (I) of section 6 of the Bombay Port Trust Act, 1879 (Bombay Act VI of 1879) as amended by the Bombay, Calcutta and Madras Port Trusts (Constitution) (Amendment) Act, 1948 (XXXVI of 1948) it is hereby notified that each of the bodies representing commercial interests specified in column 2 of the table below shall elect the number of Trustees of the Port of Bombay specified against it in column 3 thereof:—

Table		
Serial Number	Name of body	Number of Trustees
1	Indian Merchants Chamber, Bombay	8
2	Bombay Chamber of Commerce, Bombay	2
3	Maharashtra Chamber of Commerce, Bombay	1
4	Milowners' Association, Bombay	1

S. CHAKRAVARTI,  
Joint Secretary to the Government of India.

GOVERNMENT OF INDIA  
MINISTRY OF TRANSPORT

Dated New Delhi, the 12th March 1949

NOTIFICATION

(Ports)

No. 19-P(136)/48-III.—In pursuance of sub-section (I) of section 6 of the Calcutta Port Act, 1880 (Bengal Act III of 1880) as amended by the Bombay Calcutta and Madras Port Trusts (Constitution) (Amendment) Act, 1948 (XXXVI of 1948) it is hereby notified that each of the bodies representing commercial interests specified in column 2 of the table below shall elect the number of Commissioners of the Port of Calcutta specified against it in column 3 thereof :—

Table

Serial Number	Name of body	Number of commissioners
1	Bengal Chamber of Commerce, Calcutta	3
2	Bengal National Chamber of Commerce, Calcutta	4
3	Indian Chamber of Commerce, Calcutta	4

S. CHAKRAVARTI,

Joint Secretary to the Government of India.

GOVERNMENT OF INDIA  
MINISTRY OF TRANSPORT

Dated New Delhi, the 12th March 1949

NOTIFICATION

(Ports)

No. 19-P(136)/48-IV.—In pursuance of sub-section (2) of section 8 of the Madras Port Trust Act 1905 (Madras Act II of 1905) as amended by the Bombay, Calcutta and Madras Port Trusts (Constitution) (Amendment) Act, 1948 (XXXVI of 1948) it is hereby notified that each of the bodies representing commercial interests specified in column 2 of the table below shall elect the number of Trustees of the Port of Madras specified against it in column 3 thereof :—

Table

Serial Number	Name of body	Number of Trustees
1	Southern Indian Chamber of Commerce, Madras	6
2	Andhra Chamber of Commerce, Madras	2
3	Madras Chamber of Commerce, Madras	2

S. CHAKRAVARTI,

Joint Secretary to the Government of India.

Statement showing the allocation of seats to Commercial bodies on the Port Trusts of Bombay, Calcutta and Madras and the ponds of sectional interests approved for representation through their quota of seats.

Name of Chamber	Quota of seats	Interests to be represented
<b>BOMBAY</b>		
Bombay Chamber of Commerce	2	Cotton, grain and seeds shipping, oil, general Exporters and general Importers.
Maharashtra Chamber	1	.....
Milowners Association	1	.....
Indian Merchants' Chamber, Bombay	8	Cotton . . . . . 1 Piecegoods . . . . . 1 Grains, seeds and Vegetable oil . . . . . 1 Shipping . . . . . 1 Import and Export trade . . . . . 1 Manufactures excluding cotton textiles . . . . . 1 General . . . . . 2

CALCUTTA			
Bengal Chamber of Commerce	3	Shipping, oil and Transport	1
		Jute and Tea	1
		Inland shipping	1
Bengal National Chamber of Commerce	4	Coal	1
		Tea	1
		General Imports & Exports	1
		Finance and Banking	1
Indian Chamber of Commerce	4	Export and Import	1
		Jute & public Utility	1
		Shipping	1
		General (Including engineering and Sugar.)	1
MADRAS.			
Southern India Chamber of Commerce	6	Foodgrains seeds and nuts	1
		Hides and skins, dyeing and tanning substances	1
		Cotton piecegoods and yarn	1
		Shipping	1
		Inland navigation, motor and other transport.	1
		Imports and Exports (including iron, hardware machinery and minerals).	1
Andhra Chamber of Commerce	2	Oilseeds and agricultural produce.	1
		General	1
Madras Chamber of Commerce	2	Shipping (including clearing and forwarding interests).	1
		General (including hides and skin, coal and industries, tea).	1

## INDUSTRIES (DEVELOPMENT AND CONTROL) BILL

### EXTENSION OF TIME FOR PRESENTATION OF REPORT OF SELECT COMMITTEE

**The Honourable Dr. Syama Prasad Mookerjee** (Minister of Industry and Supply): Sir, I beg to move:

"That the time appointed for the presentation of the Report of the Select Committee on the Bill to provide for the development, regulation and control of certain industries, be extended upto the last day of the first week of the next session."

**Mr. Speaker:** The question is:

"That the time appointed for the presentation of the Report of the Select Committee on the Bill to provide for the development, regulation and control of certain industries, be extended upto the last day of the first week of the next session."

*The motion was adopted.*

## INDIAN RAILWAYS (AMENDMENT) BILL

### EXTENSION OF TIME FOR PRESENTATION OF REPORT OF SELECT COMMITTEE

**The Honourable Shri K. Santhanam** (Minister of State for Transport and Railways): Sir, I move:

"That the time appointed for the presentation of the Report of the Select Committee on the Bill further to amend the Indian Railways Act, 1890, be extended upto the last day of the first week of the next session."

**Mr. Speaker:** The question is:

"That the time appointed for the presentation of the Report of the Select Committee on the Bill further to amend the Indian Railways Act, 1890, be extended upto the last day of the first week of the next session."

*The motion was adopted.*

## INDIAN JUDICIAL PROCEDURE BILL

### EXTENSION OF TIME FOR PRESENTATION OF REPORT OF SELECT COMMITTEE

**Pandit Thakur Das Bhargava** (East Punjab: General): Sir, the House is fully aware that recently the Constituent Assembly passed an Act enlarging the jurisdiction of the Federal Court and practically putting an end to the jurisdiction of the Privy Council. In view of that Act I do not consider that the continuance of this Bill is necessary. I therefore beg of you and the House to grant me permission not to move this motion because it is no longer necessary.

**Mr. Speaker:** I may tell the honourable Member one technical difficulty in the matter. At present, the matter rests with the Select Committee and it is better to leave it to that Committee as to what they would advise this House to do. The Bill is not under the control of the honourable Member to enable him to say whether he should proceed with it or not. It is for the Select Committee to say so. Therefore, a formal motion of this type will be necessary.

**Pandit Thakur Das Bhargava:** Sir, as advised by you I beg to move:

"That the time appointed for the presentation of the Report of the Select Committee on the Bill to clarify and modify the law in practice hitherto followed in Criminal applications for special leave to appeal to His Majesty in Council for Criminal cases decided by the Indian Courts, be further extended upto the last day of the first week of the next session."

**Mr. Speaker:** The question is:

"That the time appointed for the presentation of the Report of the Select Committee on the Bill to clarify and modify the law in practice hitherto followed in Criminal applications for special leave to appeal to His Majesty in Council for Criminal cases decided by the Indian Courts, be further extended upto the last day of the first week of the next session."

*The motion was adopted.*

### MOTION RE DEVALUATION OF THE RUPEE IN TERMS OF GOLD

**The Honourable Dr. John Mathai** (Minister of Finance): Sir, I rise to move:

"That the situation arising out of devaluation of the rupee in terms of the dollar be taken into consideration."

The subject of this motion is admittedly one of grave importance to the country, and I am aware that as Minister of Finance, there is a special responsibility which rests upon me in this matter. I feel, Mr. Speaker, that the best way in which I can discharge this responsibility to the House and to the country is by placing before the House a true, clear, unvarnished picture of the situation as I see it.

First of all I would like to acquaint the House with the circumstances which led step by step to the situation with which we are now faced. I would like to take the House back to about four months ago when, on account of the severe drain upon the dollar resources of the countries included in the sterling area, there began rumours in Europe and particularly in America that it would be impossible for the pound sterling, which stands as the master currency of this area, to maintain any longer its exchange value. These rumours became so strong that it was necessary for the United Kingdom to get into consultation with other countries primarily concerned with the dollar currency, that is the U.S.A. and Canada, regarding the measures necessary for remedying this situation.

The House is aware that sometime last June I was expected to proceed to London to discuss the question of the sterling balances with the British Chancellor of the Exchequer. I was due to have started from Delhi somewhere about the 20th June, the official delegation from the country having gone there a little earlier. Then a message came from the Prime Minister of the

United Kingdom to our Prime Minister that in view of the severe strain upon the resources of the sterling area the Government of the United Kingdom felt it necessary to summon a conference of the Finance Ministers of the Commonwealth countries to discuss this problem. That conference was scheduled to take place sometime in the first week of July and, in consultation with the Prime Minister, therefore, I decided to postpone my visit to London until early in July.

The Commonwealth Ministers Conference took place about the end of the first week of July. We sat for three days and we considered the measures which should be taken by the countries included in the sterling area to increase our dollar resources and to reduce our expenditure of dollar. Various resolutions were framed at this conference and the whole idea of the Conference was that the resolutions passed at that Conference were to provide the basis on which the British Chancellor of the Exchequer, so to speak the Managing Agent of the Sterling Area, was to hold talks later in the year, sometime in September, with the U.S.A. Treasury and with the Canadian Government.

It is an important point to remember, and I should like to lay some stress on it, that the Commonwealth Ministers' Conference prepared the brief on which the Washington talks were to be based and I want further to draw the attention of the House to the fact that in the whole of that brief prepared by the Commonwealth Ministers' Conference there was no reference to the subject of devaluation. That subject was not discussed at the conference. There was not even so much as a reference to the subject at the Conference.

Then came the talks in Washington in September. The talks at Washington are between the British Chancellor of the Exchequer, the U. S. Secretary of the Treasury and the Minister of Finance of the Canadian Government. The Commonwealth countries were not represented in this conference. The understanding was that the British Chancellor of the Exchequer would argue the case for the sterling countries on the brief prepared by the Commonwealth Ministers Conference. I may say, incidentally, that in view of the great importance of these talks in relation to our finances and the general economy of our country, the Government of India felt it necessary to direct Mr. Chintaman Deshmukh, who is now our representative in matters of external finance in Europe and America, to proceed to Washington, sometime before these talks began, so as to be present there in the capacity of an informal observer. From public statements which have been made (I believe on behalf of the Government of the United Kingdom) I understand that before the British Chancellor of the Exchequer and the British Foreign Minister went to Washington apparently a decision had been taken to devalue the pound sterling.

The next stage to which I want to carry these preliminary observations is that the first information that we received here regarding the decision of the U. K. Government to devalue the pound sterling was contained in a message which was sent by Mr. Attlee to Pandit Jawaharlal Nehru. That message reached us here on Friday, the 16th September. The exact time at which we received it was 2 P.M. on the afternoon of Friday. As soon as our Prime Minister received that message he passed it on to me. Almost immediately after that I received a message from Washington to the effect that the Governor of our Reserve Bank, Mr. Rama Rao, who had been representing India at the annual meetings of the International Bank, was flying straight from Washington to Delhi. He did not tell me in the message what exactly his business was that brought him so hurriedly to Delhi but having seen Mr. Attlee's message I presumed that Mr. Rama Rao was coming here to give us so to speak the background of the discussions at Washington.

At the instance of the Prime Minister we had a cabinet meeting to discuss this whole matter and it was held at 10 P.M. on Friday, the 16th September, the day on which we got this message. The Prime Minister fixed

[Dr. John Matthai]

the meeting for 10 o'clock at night, because Mr. Rama Rao's plane was expected to reach here about 8 o'clock in the evening and it was thought that his presence at the cabinet meeting would help me and my colleagues in coming to a decision on this very difficult subject. Unfortunately the plane which brought Mr. Rama Rao was delayed by eight hours. He did not arrive here till early in the morning on Saturday. In the meantime we discussed this question at the meeting of the Cabinet on Friday night and having reviewed the subject from all angles we came to the conclusion that in the circumstances there was no solution possible for the Government of India except to devalue the rupee to the same extent as the pound sterling. I should like to say before I proceed any further that although the British Chancellor of the Exchequer had categorically denied that there was any intention on the part of the U. K. Government to devalue the pound sterling, it occurred to me from such indications as I gathered in London that the possibility of the pound sterling being devalued was not altogether to be dismissed. Therefore we arranged that our technical advisers in the Government of India here and our technical advisers in the Reserve Bank should at once set about an exhaustive and detailed examination of this whole problem, which they did. The result of this examination was that in case the pound sterling was devalued we should devalue the rupee to the same extent. That same advice was given to me by Mr. Chintaman Deshmukh. In that opinion the Governor of the Reserve Bank fully concurred.

**Pandit Balkrishna Sharma (U.P.: General):** May I ask one question of the honourable the Finance Minister? How many months before devaluation took place was this advice given?

**The Honourable Dr. John Matthai:** If the honourable Member will forgive me, I am going to give a complete picture and if the honourable Member wishes to put a question after that I shall be quite willing to answer it.

To resume my story, we held another meeting of the Cabinet on Saturday morning at which the Governor of the Reserve Bank was present, and the members of the Cabinet therefore had an opportunity, so to speak, of reassessing the position in the light of the personal account which the Governor of the Reserve Bank brought to us of the whole background of the discussion at Washington. And on a reassessment of the whole position we confirmed the conclusion we reached the previous night that the best course that we could adopt in the circumstances was to devalue the rupee to the same extent.

The meeting of the International Monetary Fund at Washington to consider the general revision of the exchange values of the currencies of all the member countries was being held on Saturday, the 17th, the day on which we came to our final decision. But I was informed by Mr. Chintaman Deshmukh that he was able to get the International Monetary Fund to postpone the examination of our case until Sunday so that we might have a little more time to examine the position. At 3 p.m. on Saturday, on the decision arrived at by the Cabinet, I sent a cable to Washington to say that we would propose to the International Monetary Fund that the rupee should be devalued in the manner that we decided on. I wanted at that time to inform our neighbours, Ceylon and Pakistan, of our decision to make this proposal to the International Monetary Fund. But I could not very well do it on Saturday because Saturday was a business day, and I thought in view of the great delicacy and secrecy attaching to this particular matter that the earliest time when I could send a message safely to our neighbours was Sunday morning. On Sunday morning, therefore, I despatched two telegrams, one to the Ceylon Government and the other to the Pakistan Government, informing them that we were making this proposal to the International Monetary Fund.

I would like to make a reference to Ceylon in this connection, because my friend Mr. Jayawardane, the Finance Minister of Ceylon, immediately after devaluation was decided on—both of his currency and of ours—made a statement in his Parliament to the effect that he had not been consulted by the Indian Government. I want to place before the House the facts in this connection. Two days before we received the message from Mr. Attlee, because of the rumours which started all over the world regarding the possible decision of the U. K. Government, the High Commissioner of Ceylon came to see me on the 14th—that is, as I said, two days before we received this message from Mr. Attlee. And he said there were all these rumours about devaluation and in view of the close currency relations between Ceylon and India he thought it was necessary that the two countries should act in consultation with each other. I entirely agreed with the view that he put before me and I told him two things. First of all, although the matter had not then been formally and officially considered by our Cabinet, in view of the conclusions reached in the expert investigations that had been going on both here in the Government of India and in the Reserve Bank of India and on the basis of informal talks that I had with my own colleagues in the Cabinet I told him provisionally that my personal view was that if the pound sterling was devalued we would devalue to the same extent. But I told him also that the matter had not been formally considered by the Cabinet. Secondly, if there was time I should be glad to arrange a consultation between the Government of India and the Ceylon Government. In view, however, of the time at our disposal between the 16th when we received this information and the 18th night when the Chancellor of the Exchequer was to make the announcement was far too short for the sort of leisurely consultations which the Ceylon Government had in mind. Since we reached this decision on Saturday I would have liked a personal talk with the Ceylon High Commissioner, but he was unfortunately away from Delhi during the week-end and I was not able to contact him. So the best I could do in the circumstances was precisely what I did, namely, to send a message on the morning of Sunday to the effect that this proposal was being made by us.

The same procedure I followed with regard to Pakistan: I sent them the message on Sunday morning. In that message I made this particular request. I said "We are proposing this to the International Monetary Fund" and I asked the Pakistan Government "what is the decision that you propose to take; what is your reaction?" I got no reply the whole of Sunday. On Monday at 2 A.M. I released an announcement to the press here that we were going to make this proposal to the International Monetary Fund. I decided to do so because the announcement regarding the devaluation of the pound sterling was going to appear in Indian papers on Monday morning and obviously there would be a great deal of excitement and speculation regarding the action that the Government of India might take. Therefore I allowed an announcement to appear on the morning of Monday in our papers that the Government of India had proposed to the International Monetary Fund that the rupee should be devalued. The concurrence of the International Monetary Fund was received on Monday. The whole of Monday I received no answer from the Pakistan Government. On Tuesday morning therefore I released the final announcement which was that with the concurrence of the International Monetary Fund the Government of India had decided to devalue the rupee and that the rate would become immediately effective. But since Monday, Tuesday and Wednesday were all bank holidays, actually our rate became effective on Thursday morning. Throughout that period I had not one word of information from the Pakistan Government.

There is one other fact to which I would like to make a reference. Ceylon is not a member of the International Monetary Fund, Pakistan is not a member

[Dr. John Matthai]

of the International Monetary Fund. If they had been members of the International Monetary Fund, they would have had an opportunity, in the consultations and discussions that took place in the International Monetary Fund, of ascertaining for themselves what exactly would be the developments in regard to this matter in all the other countries which are members of the International Monetary Fund. I understand also that some time over the weekend after the U. K. Government took this decision, the Commonwealth Relations Ministry in London called a meeting of the High Commissioners representing the Commonwealth countries in London in order, I presume, to explain this matter. All the Commonwealth countries were represented at that conference but Pakistan was not there. Therefore, there was another opportunity which might have automatically presented itself to the Pakistan Government to ascertain what was happening in all the other countries of the Commonwealth, but this opportunity they were for some reason unable to make use of. I therefore maintain that in view of the shortness of time at our disposal, we did the best that we could do in the matter of consulting both our neighbour countries.

There is just one word that I want to say with regard to the procedure adopted by the U. K. Government. I do not wish in the least to complain because I am fully aware of the difficulties which confronted the U. K. Government in this matter, because one of the matters which I presume ultimately led to this decision of the U. K. Government was that because of these wild rumours floating about the world there was a vast movement of sterling from the U. K. to other countries, and probably events compelled them to act in the way they did. They were faced with a very difficult and a very delicate situation. I make the fullest allowance for that fact. Nevertheless, I feel that if arrangements had been considered in time it would have been possible, for the U. K. Government to take the Commonwealth Ministers more fully into their confidence than they apparently did. I say that for this reason, that in the Commonwealth Ministers' Conference which was convened for the very purpose of discussing the dollar situation there was no reference whatever to the subject of devaluation and if as I understood it the resolutions passed by the Commonwealth Ministers' Conference provided the brief for the Washington talks, then the decisions reached at Washington by the representatives of the U. K. Government, in my opinion, exceeded the brief that the Commonwealth Ministers gave the British Chancellor of the Exchequer. I cannot help thinking that in a matter which so vitally affects the whole economy of every country in the sterling area, steps should have been taken to arrange for a secret meeting of the Finance Ministers of the Commonwealth countries before this decision was sprung upon them, regarding three matters: the need for devaluation, the extent of devaluation and the time of devaluation. I am quite aware of this that any such conference would have intensified the rumours that were already floating about, but if I had been in Sir Stafford Cripps' place what I would have done would have been something like this. Here was the Washington conference discussing this matter on the brief prepared by the Commonwealth Ministers' Conference. It could have been arranged that a report should be made by the Chancellor of the Exchequer to the Commonwealth Ministers' Conference of the results of the talks which he held on the brief we prepared. That could have been made the ostensible object of the conference. Incidentally, it would have enabled Sir Stafford Cripps to acquaint us really with the circumstances that led to this final decision.

Let me say again that I make this statement because I feel we have been placed in a position which led not merely to inconvenience to ourselves but also inconvenience to our neighbours, Ceylon and Pakistan, and I think every

effort should have been made to avoid the inconvenience that was caused in that way.

Now I proceed to tell the House what precisely are the reasons which led us to take the decision we did. I want to make it perfectly clear that although I feel logically, on the basis of economic facts, there was a case for devaluation both of the pound sterling and of the rupee, I should have liked to face this problem and to come to my decision regarding the problem after a good deal more deliberation than I was allowed time for. I feel that in this matter I have had to act not on conviction born of logic necessarily but, so to speak, by the compulsion of events. I am not happy that I have had to make a decision in those circumstances. Nevertheless, since the pound sterling was devalued, I felt and my colleagues entirely agreed with me that there was no other course open to us. I say that for this very good reason. Nearly 75 per cent. of the export trade of this country is with the countries in the soft currency areas. Therefore, when sterling was devalued if we did not devalue, the result would have been that our export trade to these countries would not merely have greatly diminished but in course of time in certain important directions might have been wiped out altogether—Lancashire piecegoods competing with our piecegoods in the markets of the sterling area, Ceylon tea competing with our tea in the same area, East African groundnuts competing with our groundnuts, South African manganese competing with our manganese, Dundee jute goods competing with our jute goods. The position was really serious and we could not afford to take the risk involved in keeping the value of the rupee at a higher rate when it was likely to lead to these extremely grave consequences for the country. It is not merely that our export trade would have suffered, the dwindling of our export trade would straightaway have reacted upon our import trade because the only way in which we can pay for our imports is by earning foreign exchange by our exports. Today we are meeting the bill in respect of our imports partly out of the foreign exchange earned by our exports and partly out of our sterling balances. We cannot go on drawing upon these balances—they must come to an end some time. Therefore, the only way in which we can maintain our trade on a healthy and enduring basis is by taking every step to promote our export trade. That then is the main reason. May I put it like this? We took this decision in the main as a defensive measure.

Secondly, supposing we decided to take a little time after the U. K. Government had decided to devalue and meanwhile to keep our ratio to the dollar at the original rate? Nobody would have taken our rate seriously. Because of our dependence on the sterling area for exports, because of our unfavourable balance of trade, because of our high level of prices, everybody who understood finance and business in any country of the world would have presumed that so high a rate for the rupee would be unobtainable. The result would have been that the whole of our trade would have been disorganised. It would, in course of time, have come to a standstill and we felt, therefore, and I have not the slightest doubt that it was a correct decision, that if we were going to decide on devaluation of the rupee the decision must be taken promptly, quickly. The question may arise here: if it was possible for Pakistan to adopt a different course, why was it not possible for you to follow a similar course? I propose to deal with it later.

There is just one other consideration that I want to mention. We are a member of what is called the sterling area. So long as we are a member of the sterling area, it is an obligation which is placed upon us, which we must be prepared to honour fully, that whatever we do must be in keeping with the general objective of that area. As I understand it, the general objective of the sterling area is to enable the countries included in that area to achieve a balance of trade at the highest possible level, partly by expanding

[Dr. John Matthai]

exports and partly as a temporary measure—if that was necessary in order to restore equilibrium—by reducing imports also. That was the objective which governed the whole proceedings of the Commonwealth Ministers' Conference and I have no doubt in my mind that so long as we are members of the sterling area, it is up to us in all the measures that we take to keep in step with the sterling area and the general objective of that area.

This question necessarily raises another. Why do we really want to remain in the sterling area? Why don't we walk out of it? The position is this. The essence of the sterling area is that all the hard currency resources earned by the members of the sterling area are pooled and all the members of the sterling area have the right to draw upon the central reserves for meeting their deficits in respect of dollar resources. It so happens today that next to the U. K., we are the country which makes the biggest demand upon these central reserves. That was not so till a few years ago. In undivided India, that is to say, during the pre-war period, India was a net contributor to the central reserves. Today unfortunately, we are not a net contributor; we are a net beneficiary. So long therefore as there is a mal-adjustment in our monetary relations with hard currency countries, there is not the slightest doubt that it is to our interest to remain in the sterling area. To get out of it at this stage would not be in our interest.

There is a point which finds frequent reference both in the Press and in the amendments which have been tabled, namely, why don't we sever our link with sterling? Now, may I explain once and for all that the rupee is not today linked to sterling any more than the rupee is linked to any other currency. All that there is, is that we have a par value which we accept between the rupee and sterling in the same way as there is a par value which we accept between the rupee and other currencies. What is called the "link" of the rupee with sterling is something which existed under certain provisions of the Reserve Bank Act which have now been deleted. There was a provision in the Reserve Bank Act which obliged the Reserve Bank to buy and sell sterling at a particular rate of exchange and it was really that that created the link between the rupee and the sterling. Today, the corresponding provision in the Reserve Bank Act is that the Reserve Bank is obliged to buy and sell not sterling but foreign exchange at such rates and under such conditions as the Central Government may determine with reference to their obligations and with reference to the Monetary Fund. Therefore, there is not today any such thing as a link of the rupee with the sterling.

There is one aspect of this problem of the sterling area to which I would like to invite attention. If, as a result of devaluation of the pound sterling and as a result of other measures which the U. K. Government have taken there is no improvement in the dollar position of the U. K. and all other countries in the sterling area and the diminution of the dollar resources of the sterling area continues, it is not inconceivable we should be faced with the position that the sterling area would be dissolved. If for other reasons some of us think that we should leave the sterling area and if as circumstances develop contrary to present expectations the drain on the dollar resources in the sterling area continues, in either case we are faced with this problem today. We must face up to the prospect of our not having access to the resources represented by the central reserves of the sterling area. In other words, it seems to me it is time that this country marshalled its resources and put its whole pattern of trade on a basis which would enable it to go on without this adventitious aid. If the need for devaluation is accepted, I submit to the House there is an equal ground for suggesting that there should be an equal measure of devaluation, because all the arguments that I have suggested for the devaluation of the rupee are equally applicable to the proposition that the devaluation must be to the same extent. I will tell you

why I am saying so. Already the level of prices in India is higher than the level of prices in the U. K. and if on top of that you are going to have an appreciation of the Indian rupee, say, to the extent of 10 per cent., that is a handicap which is quite serious enough to affect our export trade. May I give the House an illustration? About a year ago, we put a high duty on exports of cotton piecegoods which seriously affected our export trade and in response to very strong representations from trade and industry, we reduced it to 10 per cent., but even that 10 per cent. was too high to enable our exports to find reasonable sales in our customary export markets, and we removed that duty of 10 per cent. If we did not de-value to the same extent, the way in which the relative exchange ratios will operate is precisely the way in which that duty of 10 per cent. operated on our piecegoods trade.

I come now to the question of the decision taken by Pakistan. It is necessary, first of all, to make clear that what has happened between India and Pakistan in this matter is that Pakistan has appreciated the value of its currency in terms of Indian currency. What we have done has been to maintain the exchange ratio of Indian rupee with the Pakistan rupee. I say this because it has been suggested that the disturbance which has now occurred in the economic relations between the two countries is due to action taken by us. What really has caused this disturbance is the appreciation of the Pakistan rupee, not our decision to maintain the rupee on the same basis. The reason for the statement that I am making is this. In the agreements that we have with Pakistan regarding exchange of commodities, and settlement of payments, the terms are based on the parity of the Indian rupee with the Pakistan rupee. They are based also on this consideration that all settlements would be made in sterling. Therefore, the two currencies that matter with regard to these commitments are the rupee and the sterling. May I say this also? Pakistan not being a member of the International Monetary Fund, as far as I know, has no internationally registered gold content for its rupee. Therefore, the only kind of standard with reference to which their exchange ratio can be determined today is the rupee and the sterling.

I do not want for a moment to convey the impression that I question the sovereign right of Pakistan to alter the value of its currency. What I am saying is simply this: that the initial cause is the action taken by the Pakistan Government in appreciating the value of its currency in terms of the rupee. For many reasons I regret the decision taken by the Pakistan Government, because in spite of the differences which unfortunately have arisen between the two countries in other matters, there is nothing better that we desire than that, in economic matters, the relations between the two countries should remain friendly and co-operative. The economic interests of the two countries are so vitally linked together that this drastic break which has occurred in our currency relations has rendered more difficult than ever the task of those who, during these recent fateful years, in spite of every obstacle, have striven to maintain relations based upon economic co-operation between the two countries. We in this country have a clear conscience in this matter, because the action that we have taken is in accordance with the action taken by every country in the sterling area barring Pakistan. It is also in accordance with the action taken by practically every important country outside the dollar area.

The question then arises: are the circumstances of Pakistan in the economic field so fundamentally different from those of the other countries in the sterling area and from those countries outside the sterling area which have also de-valued their currency, that they are justified in appreciating the value of their currency? I say deliberately, not. I venture to think that I have

[Dr. John Matthai]

some little right to express an opinion on this matter, because, in the days before the Partition, in the days before Pakistan came into existence as a separate independent State, I was one of the very few persons in this country who held the view, and publicly expressed the view, that economically Pakistan was a viable proposition. I have naturally taken some interest in the economic problems of Pakistan, particularly in their relations to the economy of this country, and on such knowledge as I have, I have no hesitation in saying that the decision, which, in this matter, has been taken by the Pakistan Government, is totally lacking in economic justification.

When you come to consider the question as to what exactly are the tests that you apply in order to determine the relative external value of a currency, there are two governing considerations. First of all the balance of payments, and secondly the level of internal prices.

I will first of all take this question of balance of payments. Now, Pakistan's favourable balance is due primarily to two things: first the export of raw jute and cotton to India and, secondly, her low imports of capital goods due to the fact that her industrialisation programme has not yet been put into operation. In regard to the export of raw jute and cotton to India, on the ratio which is now proposed by the Pakistan Government, the Indian manufacturers would be compelled, in their own interests and as a matter of sheer self-preservation, to refuse to buy raw jute and raw cotton from Pakistan to the extent they have done in the past, not as a matter of retaliation, but simply on account of the play of economic forces. May be it may hurt us a little, but the production of raw jute is rapidly growing in this country. We are making every effort to grow improved varieties of cotton. In the meantime it is open to us to turn to other soft currency areas to supplement our own resources in raw cotton. Therefore, it seems to me that this favourable balance, from the point of view of trade, is a temporary passing phase. This temporary balance, mark you, is based on the parity of the Indian rupee with the Pakistan rupee. The moment it is altered, then the whole aspect of the question changes.

There is another point that I would like to mention. Supposing the export trade of Pakistan in this important raw material diminishes. To that extent it is going to react upon their favourable balance. Two or three years from now, under the General Debt Settlement between the two countries it will be necessary for Pakistan to make equated payments to us of the debt that they owe us. Once those payments become operative, there will be a further force which will alter this balance. There is, therefore, in my judgment, no doubt that the so-called favourable balance is an adventitious factor.

The other point is that I understand that the Government of Pakistan have a fairly big industrialisation programme. The moment that programme comes into operation, imports of capital goods would begin to increase. That would be a factor on the other side. It seems to me therefore that forces are likely to work in a direction which will diminish and eliminate this favourable balance.

Now let me take the question of the level of internal prices. That is another consideration on which this question of exchange ratio is determined. Till August 1947 both our countries were subject to the same price influencing factors. Since then, as far as I am aware, no developments have occurred which have operated in different directions in the two countries regarding the level of prices. It is true that in western Pakistan the prices of food grains have been coming down, but on the other side, in eastern Pakistan, the prices of food grains have been going up. As far as I am able to judge, from such

material as I have gathered from international statistical publications, the difference between the levels of prices of the two countries is by no means such as to justify this enormous disparity between the relative value of the two currencies.

Mr. Speaker, I cannot believe for a moment that the able men who direct the financial policy of the Pakistan Government are not aware of the weakness of the economic case for their new exchange ratio. I am driven therefore to the conclusion that other considerations have influenced their decision.

What are these considerations: I can only conjecture, but I feel that I am in duty bound to tell the House what my own conjecture is. First of all there is the psychological factor. A leading British journal, the London Economist, in some comments that it made the other day on this matter described the decision of the Pakistan Government as a "temporary aberration", putting it down to certain psychological causes, first of all a sense of injured pride that they do not count more in these decisions than they appear to have done so far and a natural desire to make others sit up and take notice. Secondly, the temptation to demonstrate the superiority of their currency over the Indian currency proved too strong to resist.

But there are also certain business and financial considerations. This is the beginning of the busy season in jute and cotton. Our people would be presumed not to have made adequate arrangements for getting enough stocks for carrying on their manufacturing operations for the rest of the year, and it is likely therefore they would be compelled to purchase these essential raw materials at higher prices than they have been paying hitherto. Whether that would work or not I am not in a position to say, but in the conference that we have had with leading businessmen in this country, they appeared to think that, if that is the calculation on which the decision was based, that calculation is not going to work according to schedule (*hear, hear*).

There is another point to which I would like to draw the attention of the House. One of the most important arguments which have been urged over and over again for appreciating the value of the Pakistan currency is that thereby they would be able to get imports of capital goods cheaper, cheaper from the sterling area and not more expensive from the hard currency area. I was therefore curious to know what exactly are the capital goods that they were expecting to import, and I looked up the budget statements presented by the Finance Minister of Pakistan. The capital budget of the Pakistan Government for the two years 1948-49 and 1949-50 gives the following figures: For the two years together capital expenditure is estimated at 85 crores of rupees. This is spread over a large number of relatively small items. There are two items that stand out. For industrialisation for the two years put together, the total provision is 5½ crores. Under Defence Outlay, the provision is very nearly 48 crores, mostly defence stores. I leave the House to draw its own inference.

I therefore share the general view expressed not merely in India but also abroad by competent persons that strong economic forces will make it increasingly difficult for Pakistan to maintain their new ratio.

In the light of the present situation, we have had to consider whether a new official rate of exchange between the Indian and Pakistan rupees based on the altered relation between the Pakistan currency and sterling should be immediately announced and brought into operation. We have been in communication with the Pakistan Government in this matter, but this question of the rate of exchange is bound up with certain issues arising out of the payments agreement between the two countries. We therefore felt that no announcement of the new official rate of exchange is possible at this stage, and have

[Dr. John Matthai]

informed the Reserve Bank of India and the Government of Pakistan accordingly. Pending a settlement of these issues, for which purpose an inter-governmental conference is proposed to be held soon, it is inevitable that the position with regard to the exchange rate with Pakistan must continue to be fluid. There is one thing that I want to make quite clear. In agreeing to an inter-governmental conference, the Government of India have no intention whatever to alter in any way the decision already arrived at after the most careful consideration regarding the exchange value of the Indian currency. In view of the frequency with which statements regarding devaluation by Finance Ministers in other countries are made and unmade, I want to make it absolutely clear that in making this statement I mean every word of what I say (*hear, hear*).

Now I come to the particular issue which I know is uppermost in the minds of honourable members. What are the effects of the devaluation on India's economy? We decided to devalue, as I stated, primarily as a defensive measure, to defend our external trade. Nevertheless, it is necessary that we should examine carefully what the repercussions of this decision are going to be upon our economy. The position is still obscure. There are far too many uncertain factors and I hesitate to lay down any dogmatic or categorical proposition. We are still in the throes of the world earthquake which has taken place since general devaluation started, and it is difficult even now to see the picture as a whole. All that I can hope to do therefore this morning is to state a few broad conclusions necessarily of a tentative character.

I take first of all our balance of payments. As regards the United States of America, our exports are mainly jute goods and secondarily tea. The way in which I estimate the position is this: Neither the demand for these articles in the United States nor our supply of these articles in India admit of any substantial variation in response to changes in price. I presume therefore that quantitatively there is not going to be any considerable increase. If quantitatively there is not going to be any considerable increase and at the same time the dollar prices in America fall because of devaluation, then it must be presumed that our total dollar receipts will also fall. One way in which this can be obviated is by a system of customs duties on exported articles which we have already imposed on certain classes of goods consistently with improving our position in the export market. That is a point I propose to revert to later. On the import side, our dollar expenditure will increase because of higher rupee prices. The remedial measures which we have got to take in this matter are to stop imports of food-grains as early as possible, to reduce the imports of other articles such as motor vehicles, and to divert the purchases of machinery and industrial materials as far as possible to soft currency areas. I have already discussed the question of balance of payments with Pakistan and what is likely to happen in regard to raw jute and raw cotton. As far as the United Kingdom is concerned, I think in the main the position will be left unaffected except for two factors: The goods exported to this country by the United Kingdom using materials produced in the United States would necessarily show some increase. With the increasing demand which is going to be placed upon the soft currency areas because of the higher dollar prices of these goods, there is likely to be an increased pressure of demand upon soft currency areas which may, in my opinion, to some extent put up the prices of goods imported from soft currency areas.

I now come to the question of the sterling balances. It is usually stated that the result of devaluation is that the convertible portion of our sterling balances will now have less value. That, I think, is an inaccurate way of stating the position. What exactly is going to be our loss by reason of the devaluation will depend on the extent to which we can divert our purchases to the sterling area, on the difference in prices and on the money value that we set

upon the difference in quality and periods of delivery. I am not going to deny that there is some loss; but the loss is not likely to be quite so large as a straightforward application of arithmetical percentages would suggest. The real test in these matters is not currency, but the things that currency buys.

Against this must be set a factor which is of some importance from our point of view. The purpose of devaluation, taking the whole group of sterling countries, is to stimulate exports to the United States of America, to Dollar countries, and thereby increase the dollar earnings of that area. If devaluation succeeds in achieving that purpose, there are indications that it is likely to, then, to the extent that the central reserves of the sterling area increase, to that extent we should benefit because, today, there is no quantitative limitation upon the extent to which the countries of the sterling area can draw upon these central reserves for essential requirements.

With regard to sterling balances, I must also refer to the question of scaling down of these balances. Recently, a speech was made by the leader of the Opposition in the British Parliament regarding the possibility of these balances being scaled down. I wish to say a few things regarding this matter. Apparently, the demand for scaling down these balances is based on the plea that India owes a good deal more than she has paid so far towards the war expenses of the allied countries. The only thing I wish to say with regard to that is this. India's share of the war expenditure was a matter of definite, deliberate agreement between India and the United Kingdom made at a time I presume when the present leader of the Opposition was the Prime Minister. Every penny due from us under that agreement has been paid. No further claim, in my opinion, can be made upon this country. There were certain outstanding items such as defence stores, and so on; but these were settled in the sterling balances agreement of 1949. I maintain, therefore, in fairness, there is no justification for the demand which is being repeatedly made by certain sections of public opinion in the United Kingdom.

I want to put before the House some relevant considerations regarding this matter. First of all, I maintain that the creation of these sterling balances was the result of an improper use of the provisions of the Reserve Bank Act which linked the Rupee with the sterling. Sterling securities being used to that extent as reserves for our currency, I say, was a wrong use of this provision. Secondly, it is the creation of the sterling balances which very largely accounts for the problem of inflation from which this country is still suffering. Thirdly, a free Government of India, if it had been in power at that time, would have required that the cost of goods supplied by India to the United Kingdom, at a terrific sacrifice, may I add, for war purposes, should be met by goods supplied to India, especially capital goods, by Rupee loans raised in India or by gold. If these did not meet the cost of the supplies required, the supplies would have to be restricted to that extent. If this course had been adopted, we should have been spared this terrific inflation problem which we have inherited. Fourthly, may I say this: whatever the merits of the war, a question into which I do not propose to go, our people were no party to the declaration of this war and I think it is not right now that a National Government is in power. We should be saddled with additional expenses. If a future Government of the United Kingdom makes this demand, it must be made clear that we in this country will resist it by every means in our power. We are not quite so helpless in this matter as some ill-informed people in other countries seem to think. I am quite aware that the opinion expressed by the leader of the Opposition in the British Parliament does not represent authoritative opinion in the United Kingdom: I am well aware of that fact. But, now that the matter has been officially raised by the leader of the Opposition party.

[Dr. John Matthai]

I suggest to the House it is necessary that we should begin seriously to consider what steps we should take to meet the situation if it arises.

The third aspect of our economy which I propose to consider is the effect of devaluation on the investment market. Subject to certain essential qualifications, devaluation generally helps investment. It acts as a measure of protection for local industries, a protection which is effective so long as the country is able to keep the costs down. It affords further assistance to industry because it encourages exports I think, on the whole, devaluation is of help to the investment market. The Indian Stock Exchanges have already developed, in my opinion rightly, a more hopeful outlook. Secondly, the movement of capital from India to other countries which had assumed noticeable proportions will now diminish. Similarly, investment in India must now be more attractive for countries, particularly, hard currency countries. Barring untoward developments, I consider that the position of the investment market hereafter must show improvement.

The fourth question is the level of prices. I leave out speculative rises. But, taking the purely normal economic factors, first of all, the cost of living index, all the important items which compose our cost of living index are of indigenous origin, food, clothing, fuel, lighting, house rent and so on. They should show no rise. With regard to food, all the food imports which we had programmed from the United States of America have already been received, so that, as far as the current year is concerned, I do not expect any additional expenditure on that account. But, there is one point to which I would like to invite the attention of the House: namely the Wheat Agreement to which we are a party. The prices of wheat, in that agreement, are stated in terms of dollars with reference to whatever ratio is fixed by the International Monetary Fund. We have got still some outstanding shipments from Australia. I understand the Australian Government have taken the line that the price of wheat imported by us from Australia should be settled in terms of dollars at the ratio accepted by the International Monetary Fund. This matter is now under consideration by the Wheat Council, set up under this agreement. There is a provision in that Agreement that if any importing country experiences difficulties in regard to balance of payment or monetary reserves, that country has the right to submit a case to the Wheat Council for consideration. We have already taken steps in that direction. In any case, I have reasons to think that we ought to be able to reach a reasonable settlement with the Australian Government on this question.

In any case, supposing as the result of higher prices, the cost of wheat goes up: it would not affect the cost of living index. What it would do would be to increase the amount of subsidies paid by Government. That would be a budgetary question with which I will deal later.

As regards cloth, the cloth worn by the poorer classes of the population is of medium and coarse counts. The whole of the raw material used for their manufacture is of indigenous origin. Therefore, I am inclined to think, barring speculative increases, there is really no reason why the cost of living should go up on that account.

With regard to the whole sale price index, industrial materials, for example chemicals, non-ferrous metals and so on which we import from the United States of America and which we cannot altogether dispense with would be affected. The solution is that we should divert supplies, as far as possible, from soft currency areas. In case an increase occurs in the cost of industrial production, it is necessary that we should give immediate attention to reducing the cost of essential commodities so as to bring down, if we can, the cost of living which would affect the whole basis of industrial costs.

I come to the last aspect of our economy to which I want to refer namely, the budgetary position. I can only consider the current year 1949-50, because what is likely to happen next year in the way of imports from hard currency areas would depend on the import programme that we draw up for 1950-51. As far as 1949-50 is concerned, taking the revenue and capital together under food, subsidies, Government stores, Embassies and other foreign missions and the interest payable on our loan from the International Monetary Fund, I estimate there would be approximately an additional expenditure of somewhere about six crores, of which revenue would be four and capital would be two. May I say this also—I expect most of this will be covered by the increase in customs revenue due to devaluation, partly through the export duties that we have imposed and partly by the higher receipts of *ad valorem* duties levied on higher c.i.f. rupee prices. I must make one point clear to the House: all that I am trying to suggest to the House at present is that if there is an increased expenditure due to devaluation, there are also increased receipts due to devaluation. But the general problem of our customs revenues still remains somewhat difficult and anxious.

In view of these reactions which I have indicated of devaluation upon our economy, Government propose to take immediate steps, some of which have already been taken in hand, to meet the situation. I will summarise them as follows:

- (1) The formulation of a future pattern of trade which in the new situation with which we are faced will reduce our expenditure of foreign exchange to a minimum, having regard to the essential requirements of the country;
- (2) The employment of such bargaining power as we have by reason of our position as large scale purchasers for the purpose of bringing down to reasonable levels the prices of industrial materials imported from countries whose currencies have appreciated in relation to Indian currency;
- (3) Prevention of speculative price increases by legislative and administrative measures and by regulation of credit facilities;
- (4) Imposition of customs duties consistently with the principle of non-discrimination on articles exported to hard currency areas so as to ensure a maximum amount of foreign exchange for the country and at the same time secure that the advantage resulting from devaluation is distributed among the foreign importer, the Indian manufacturer and the Indian exchequer;
- (5) To further the stimulus to investment which devaluation generally provides and thereby assist production and promote development by an intensified savings drive by propaganda, and failing this by compulsion and by provision of suitable governmental assistance for the extension of Banking facilities in rural areas;
- (6) With the same object in view, to extend facilities for voluntary settlement of taxes payable in respect of war profits to assesses whose cases have not been referred to the Tax Investigation Commission;
- (7) Introduction of economy measures for securing an aggregate reduction of approximately forty crores in revenue and capital expenditure for the current year and not less than twice that sum next year, as compared with the budget estimates for 1949-50.

It is, however, expected that if the schemes that Government have in hand for stimulating investment make satisfactory progress, further sums will be made available for developmental expenditure next year;

{Dr. John Matthai}

- (8) To take steps, in co-operation with Provincial and State Governments, to bring about an aggregate reduction of ten per cent. in the retail prices of essential commodities, manufactured goods, as well as food grains, by a reduction of exfarm and exfactory prices or by reduction of distribution costs and incidental charges, or by both.

Sir, that brings me to the end of my story. We have a big task in front of us which has not been rendered easier at least for the time being by devaluation. Whether we like it or not, we must look upon devaluation as a timely sign and warning that for many years now we have been living beyond our means, both internally and externally. I say 'timely' because we have yet time to put things together and to remedy the situation before it becomes too bad to mend. Now that devaluation has become an accomplished fact, we would do well to take it and to use it for what it really is, a check on the pace at which we have been living and the extent to which we have been over-drawing our existing resources. If this check is employed aright, with forethought and with firmness, I am confident that once the period of initial adjustment is over, which may be painful, but which will not be long, we shall have achieved a healthier economy, a sounder and more enduring framework in which to labour for the good of our people.

**Mr. Speaker:** I would like to clarify a few points as regards procedure before we proceed with the further discussion of this motion. I have received up to now notice of, in all, eighteen amendments, sixteen of which have been circulated to honourable Members. Two were received later. Looking to the number of amendments and the desire of a large number of members, naturally, to speak, it will be necessary to put some time-limit on the speeches. I was thinking of proposing a time-limit of twenty minutes, but in view of the large number of speakers, I am just considering as to whether it should not be fifteen minutes instead of twenty minutes. So I was considering the time factor. I suggest that fifteen minutes will be the ordinary time for an honourable Member but in no case will it exceed twenty minutes.

Secondly, I am not quite sure whether all these amendments need really be moved. Of course, it is the right of every Member who has tabled a motion to accept this or not. But it seems they are more or less arguments or specific suggestions, and instead of taking up time in formally moving these amendments, I may suggest, if acceptable to honourable Members, that they make these points in their speeches. Some of the points made by various amendments seem to be common, except that there are two amendments which may have to be moved: one is that of Prof. K. T. Shah which takes up a definite attitude about the action of Government and the other which has been tabled by Pandit Thakur Das Bhargava. One condemns the action of Government and the other approves and then the suggestions follow. So perhaps, these two amendments will, of necessity, have to be moved if the House wishes to vote on the proposal and does not merely wish to discuss the matter.

So I would earnestly request Members not to go in their speeches very long into the preambles and history of the question. We may now start with the discussion of the motion. What is the position then about the amendments?

**Shri T. T. Krishnamachari (Madras: General):** The motion has not been formally put to the House.

**Mr. Speaker:** I am sorry. Motion moved:

"That the situation arising out of the devaluation of the rupee in terms of the dollar be taken into consideration."

Now which of the two amendments?

**Shri M. Ananthasayanam Ayyangar** (Madras: General): May I suggest that Pandit Thakur Das Bhargava's motion may be allowed to be moved first because it is a positive motion and then the negative motion could be moved.

**Shri T. T. Krishnamachari**: May I suggest that the honourable Mover may agree that the wording of his motion be amended so as to say 'gold' instead of 'dollar'—'devaluation in terms of gold' rather than 'dollars'.

**Mr. Speaker**: It all depends on the honourable Minister.

**Shri T. T. Krishnamachari**: I heard him say that he is willing to accept it.

**Mr. Speaker**: What is the position? I am indifferent about it.

**The Honourable Dr. John Matthai**: It would be technically more correct to say 'gold' rather than 'dollar', though it means the same thing.

**Mr. Speaker**: So I will put it in this modified form. Motion moved:

"That the situation arising out of the devaluation of the rupee in terms of gold be taken into consideration."

**Shri M. Ananthasayanam Ayyangar**: Pandit Thakur Das Bhargava's motion is an amendment to the original motion. So Pandit Thakur Das Bhargava may be allowed to move his first.

**Mr. Speaker**: The sequence does not matter much because according to the view that I am taking, it does not appear to be pure negative of the original proposition. So it does not matter which is moved first, because after all the House will have an opportunity of voting on both, i.e., whichever is carried first and the other may not then be put to the vote.

So Pandit Thakur Das Bhargava and Prof. Shah may just move their amendments and then I will call upon members to speak.

**Pandit Thakur Das Bhargava** (East Punjab: General): Sir, I beg to move:

"That for the original motion, the following be substituted:

'Having considered the situation arising out of the devaluation of the sterling in terms of gold, this Assembly approves the action taken by the Government in this behalf, viz., devaluing the rupee in terms of gold.'

**Mr. Speaker**: Amendment moved:

"That for the original motion, the following be substituted:

'Having considered the situation arising out of the devaluation of the sterling in terms of gold, this Assembly approves the action taken by the Government in this behalf, viz., devaluing the rupee in terms of gold.'

Prof. Shah may now move his amendment.

May I suggest to the honourable Member that a certain part of his amendment seems to be purely argumentative and perhaps not necessary, namely from the words "...as in the considered opinion" up to "...as well as distribution:...". They do not seem to fit in with the motion and are therefore unnecessary under the rules. He can just move his amendment without those words.

**Prof. K. T. Shah** (Bihar: General): Very well. I move:

"That for the original motion, the following be substituted:

'This Assembly, having considered the situation arising out of the devaluation of the rupee in terms of gold, records its profound regret and dissatisfaction with the sudden, sharp, and wholly unwarranted devaluation in the exchange value of the rupee in terms of gold, and calls upon Government immediately and finally to sever any remaining link with the pound sterling; forthwith to adopt all possible measures to maintain the purchasing power and exchange value of the accumulated resources of India, known as the Sterling Balances, without any depreciation in terms of gold, on or before 15th day of September 1949; and urges upon Government the extreme importance of maintaining stability of the general price level without any prejudice to the working class standard of living.'

**Mr. Speaker:** Amendment moved:

"That for the original motion the following be substituted :

"This Assembly, having considered the situation arising out of the devaluation of the rupee in terms of gold, records its profound regret and dissatisfaction with the sudden, sharp and wholly unwarranted devaluation in the exchange value of the rupee in terms of gold, and calls upon Government immediately and finally to sever, any remaining link with the pound sterling; forthwith to adopt all possible measures to maintain the purchasing power and exchange value of the accumulated resources of India, known as the Sterling Balances, without any depreciation in terms of gold, on or before 15th day of September 1949; and urges upon Government the extreme importance of maintaining stability of the general price level without any prejudice to the working class standard of living."

Before we proceed with the discussion, I have an announcement to make.

In view of the importance of the subject and a general desire of a large number of Members that some more time should be given to the discussion, Government have agreed to allot one more day.

What I propose to do is this. We will sit today till 5 P.M. and to-morrow, as the Constituent Assembly on the constitution-making side is to meet—and they will meet only to postpone for a day—at 11 o'clock, we shall meet here at 11.30 and then we shall follow the usual time-table and finish the business by 5 P.M. to-morrow.

**Prof. K. T. Shah:** Sir, I have listened very carefully to the long and reasoned statement made by the honourable Finance Minister in support of the action taken by Government making a sudden and sharp devaluation of the rupee in terms of gold or of the American dollar. But I confess, with every desire in the world to see eye to eye with him, I am unable to follow him in every one of the points he has made. But that is not to say that the points he has made are in themselves either worthless or without any force. I concede that in a good deal of things that he has said there is considerable force and when I come to them, if I have time I shall indicate without hesitation my endorsement of the argument that he has himself urged. At the same time I can not help feeling that the case put forward by him is at the most a very lame one and he was himself wise enough to say that it is after all a defensive measure. In measures of defence, which we are forced to take at the point of the sword, so to say, we may not always be able to follow logic or our own conviction. Here I think I am on very sound ground for the Honourable the Finance Minister himself in the course of his remarks did admit that had he time to consider the matter, had he himself tried to follow his conviction or examine logically the situation as it is in this country he might have perhaps thought differently or taken more time. As it is he is a victim and I sincerely sympathise with him for the step that the British Government have forced upon him. If I understood him correctly, as late as July, or was it August, this year, no inkling was given to the ministers of the Commonwealth that there was such a catastrophe impending. In the brief that they prepared no mention even was made. In the conversations that were carried on, apparently no consultation was held by the British Government or its Ministers with those who had such tremendous stakes in the maintenance of the exchange value of the pound and incidentally of the rupee. Given that situation, and given the fact that Cripps himself till the last moment had led the world and I think also the Finance Minister of India to believe that the British Government were not contemplating any change in the exchange value of the pound, having regard also to the repeated assurances that the highest financial authority in Britain had given in this regard, I think we are justified in saying that we have been sadly betrayed by those whom we had trusted. Twice in 20 years has Britain suddenly without any intimation to those who had trusted her gone off—then it was called going off gold and now it is going off the dollar—and entirely to suit her own economy. She had not thought of what would happen to those who had been led to trust her commercial honesty, who had deposited large reserves, the fruits of their hard toil, in British banks or with the Bank of

England. Technically the Bank of England may not be insolvent, technically perhaps the British banks and monetary authorities may not be called bankrupts but I venture to say that those who having led people to believe that full value would be returned to them for their deposits or accumulations they have been induced to keep in another country, suddenly without consultation and without consideration they go off that basis and say henceforth we shall pay you only half or one-third of what we had promised to pay or what you had understood would be paid. I think that cannot be described as anything else but a breach of faith and an act of bankruptcy. That being the case I cannot sympathise with the Finance Minister who, contrary perhaps to his own judgment, has been betrayed or led into a trap which had been placed by a very astute politician who to the last minute went on saying that he had no intention of doing what precisely he has done and that to an extent that even some of his own compatriots seem to have been surprised at. This crime is not merely a crime without any notice or intimation or preliminary circumstances leading one to apprehend it, but it is a policy of gross betrayal of the trust we had reposed, along with some other unfortunates, in the British honesty and left our resources accumulated with them so that today if we have to make purchases away from Britain in hard currency areas we are not in a position to do so without very considerable loss to ourselves. However much the Finance Minister may gloss over this staring fact of the situation I am afraid it would not be possible for him altogether to deny it and I do not think he desires to do so either.

I realise that this is an accomplished fact, as the Finance Minister called it. I realise that it is fruitless to indulge in recriminations of what has happened but I am afraid I cannot quite agree with the Finance Minister when he told us that there was no alternative in the situation as it was developing. With every respect to his desire to safeguard the interests of this country, I am afraid that in this he has allowed his judgment to be overwhelmed by what is called the logic of events and allowed himself to be forced into an action which I for one consider his own government cannot really approve of. I am fortified in this opinion by his own very modest and almost apologetic tone with which he has read out his statement.

[At this stage Mr. Speaker vacated the Chair which was then occupied by Mr. Deputy-Speaker (Shri M. Ananthasayanam Ayyangar).]

If one is not to engage in recriminations for what has happened, and I assure you, Sir, I have no desire to do so, one has however to consider the effects of this action upon the country's economy and the future possibilities from the events that have occurred. In that regard I feel that the nature of the step that has been taken by the Government of India along with the British Government is one that cannot but redound injuriously and harmfully to our long-term as well as immediate economic requirements. The fact must be realised, however we may try to represent or misrepresent it, for the last two years or more this country has been a debtor country in the matter of balance of payments, though all along in the past history of this country, in spite of famines or wars, we have been on the balance a surplus country. For the last two years we have the misfortune to find ourselves year after year to have to make increasing payments abroad or to raise loans. According to the balance of accounts in 1947-48 which was the first of the deficit years we had on balance to pay something like 50 crores. In the year just ended last March, i.e., 1948-49, we had an adverse balance of something like 95 crores. Looking at the figures of the first five months of the year up to May—I have the figures only up to the end of May—both imports and exports, it seems to me that in the absence of any very strong measures to stop the trend that is developing we shall have a much larger balance against us, perhaps to the tune of Rs. 200 or 300 crores. In

[Prof. K. T. Shah]

the five months of the year, reckoning from January to the end of May, the balance against us is something like Rs. 110 crores. In June and July, from such indications as one can gather in the absence of official statistics, the same trend was going on. At that rate the year's deficit might be anywhere near Rs. 300 crores if not checked by very strong measures to the contrary. With such a balance against us the resources that we may have are bound to be strained very seriously and perhaps to the great damage of our future national economy. It is right for the honourable the Finance Minister to point out some of the effects of the action now taken in the long run—that is to say, when time has been allowed for adjustments as between the production and distribution forces, when time has been allowed for exports to adjust themselves to new conditions, and also imports, it is possible that the present step may not be in the future much more injurious. But I am constrained to say that that would not compensate for the injury that will occur and is occurring even now. My difference with the honourable the Finance Minister is mainly on this question that he seems to be under-estimating the injury that has occurred already and is occurring, and he has placed before us a picture with all the lights and shades that he is a consummate master of giving. He has placed before us a picture which is apt to place us in a contemplation of the future over the present. I submit to him that that is not quite fair to this Assembly or to the country and he might give equal stress to the immediate necessities and likely possibilities of this and, let us say, the next year.

This would compel me to examine a little more fully the composition of our foreign trade and the nature of the balances of payments we have to make. Sir, I am aware of the imposition of a time-limit to which, however inconvenient I feel it for me, I shall try to conform. But you will bear with me. I hope that without some reference and some explanation of these hard facts it is not possible to make one's argument as effective as it needs to be in face of the situation with which the country is confronted.

As I have just been saying, here is a balance against us running into nine or ten figures. For that the resources that we have are not such, and are not calculated to be such, as to inspire us into any very great optimism immediately. Consider the nature of our imports and of our exports. I realise that steps have been taken and will be taken—and I shall on the proper occasion congratulate those concerned for those steps if they prove effective and satisfactory—by which we propose to stop imports from the hard currency areas of essential requirements either of foodstuffs or of capital goods. But I do not yet see anything in the statement that the honourable the Finance Minister has made which would suggest that for the time being or for this year at any rate, or even for next year, we shall be really able to make both ends meet. We have imported this year. I understand, something in the neighbourhood of 40 lakhs of tons of grain which is about 10 per cent. of our own production. In the year beginning from the 1st of November—that is, the *fasli* year—we have to import, on good authority, something like 25 lakhs of tons which in terms of the price level which may then prevail may quite possibly make a demand on us not much lower than the 40 lakhs tons of this year. I wish I may prove a false prophet. But so far as indications go and from anything that the Finance Minister has said it seems to me that in this matter it would be impossible for him with all the goodwill in the world to prevent a drain to a very large extent—running into a hundred crores or more.

As regards the imports of capital goods, the situation is even more serious so far as I can envisage. I do not wish to take the time of the House by going into details of the capital goods which are being imported. But we have already made commitments both on the public and on private account for

many of these capital goods which cannot be canceled without very serious loss not only immediately but in the future to the progress of this country's economy. If you wish to stop imports of capital goods the consequences would be far more serious than seem to be appreciated by those in authority. If you have made up your mind and if you are determined to cut short losses and say, "We shall have nothing more to do with foreign trade; we shall try to live within our means; we shall accept some such sacrifice as 'Miss a Meal a Week'—or if it comes to that miss two meals a week—" that might justify a prohibition of imports and of essential requirements. If you are going to that extent as to stop all industrial progress which is dependent on the import of foreign capital goods, one can understand. For that purpose, I would suggest that if you are really so heroically minded and are prepared for such things you should not leave it to private enterprise to follow your controls in the manner in which they have been doing. They have not proved as successful as you desire. Black-marketing has flourished along with controls and profiteers have flourished along with controls. If you really wish to maintain your control effectively, if you really wish to see that foreign trade under these circumstances is not made an opportunity of profit for private individuals, then stop all foreign trade in private hands and take it as a government monopoly, something on the lines of the U.K.C.C. (the United Kingdom Commercial Corporation) in war-time. Make all exports and imports the monopoly of Government and then you will be able to see that your import and export take place in that manner and from and to that country you desire. Short of that I do not see your being able to prevent profiteering and black-marketing flourishing at the expense of the people. I call once more upon the logic of events, the force of circumstances to defend yourself. I make a present of this that there is a way, for instance, by which you can avoid altogether the risk that you are now faced with of your measures of control and regulation not proving effective, by which you may be able not only to develop your own inherent strength in the shape of cottage industry and hand-work and provide employment where employment is lacking instead of creating further unemployment in the shape of keeping down production costs as they are called by throwing out of employment of some people. These are consequences you will be faced with if you do not take the only logical step of your action, namely, a complete stoppage of all foreign trade in private hands and a complete monopoly of import and export trade with overseas countries in the hands of government. Then only, I repeat, will you be able to control effectively. Will you be able to see that the harm you are suffering or are likely to suffer from will be, if not avoided altogether, at least minimised.

The Finance Minister, in the course of his speech, was pleased to observe with reference to a part of the motion that I have the honour to place before this House, that there is a misapprehension about the link with sterling. It may be that technically that particular provision of the Reserve Bank of India Act has been amended and it may be that in that particular shape we have no link, legal or technical, with sterling. But it seems to my mind amazing that having no link whatsoever, as we are told we have none, we shall still want to devalue at the same time, in the same manner, up to the same extent, as the British Government does, and that too when the British Government does not even do us the honour to consult us, does not care to inform us in time and takes a step as it were on its own account. I say that if there is not a gold or a silver link or a legal link, there is at least a strong psychological link and that psychological link I am afraid is affecting the judgment, is affecting the whole tenor of the behaviour of those in authority today. There seems to be such a weakness, such a fascination for things British and actions British that I am afraid whatever is done by the British is regarded as good as in the days of my youth when things made in England used to be considered as a hallmark of

[Prof. K. T. Shah]

excellence whereas those made in Germany or Japan were considered as the hallmark of shoddiness. I hope, Sir, that we have got over that stage of our psychology when everything British was sterling gold—now even sterling gold is 18 ct., not 24. But in this particular case, Sir, let me warn the honourable the Finance Minister and his colleagues that this action has been taken by the British, and we have followed in their wake, not so much to assist the sterling area as a whole, not so much to assist this country but solely and simply and exclusively to benefit the British in their standard of living or in their industry. It has no concern with us and if anybody lives in the hope, if anybody lives in the belief that we are going to benefit from it, I should regard him a candidate for an asylum and not for an Assembly.

I will explain to you that this is a position in which escape is impossible. Look at the position from a somewhat detached point of view. Why do you devalue? You devalue because it is said that prices of your exports in competitive world markets are not profitable and therefore if you reduce them in terms of the world market you make it a better market for your goods. That is the basis, the genesis, the root of this policy, this fancy of devaluation. It has now become a fad. However, this chance would be there if you only devalue and everybody played the game otherwise. Here, however every country begins to devalue and every country seeks through that course to increase its exports and reduce its imports. If all begin to play the same game, if all reduce in the same manner their exchange value, where will be the chances of your improving the domestic price of a foreign export? You remember that twenty years ago when the pound was devalued all of a sudden the British authorities thought that they might steal a march upon the rest of the world. We, of course, in those days were utterly helpless and had to follow what our masters ordered us to do. But less than a year and a half later the mighty dollar also had to come down from 100 cents to 60 cents, from 21 dollars to one ounce of fine gold to 31 dollars to one ounce of fine gold. This is nemesis. It is all very well for the mighty American dollar to stand up and say, "Everybody shall conform to us or pay the penalty". If this game goes on all round, everybody will cease to have the advantage and it will have to operate even on those countries which fancy themselves today in a position in which they can dictate their terms to the rest of the world. If I did not mishear him or misunderstand him, the honourable the Finance Minister was pleased to apply that logic to a neighbouring Dominion, that in course of time it will have to reconsider its position. I am inclined to agree with him but I must also state that if one agrees with him in his logic, that logic also applies to those who now stand aside and think they can levy a tribute or a toll upon the rest of humanity by maintaining their economy in the manner in which they are doing. The British Government, however, has chosen for itself without thought of anybody else, without regard for any other consideration, of how to escape from the unfortunate, the very very hard position in which the British trade and industry finds itself. You must realise what is the actual economic position of Britain. Britain is a country which for the last hundred years or more has ceased to be an agricultural country. It cannot feed a population of more than 25 per cent. from its own resources. She produces that which she cannot consume except to the extent of 25 or 30 per cent., and she consumes that which she cannot produce except to the extent of 25 or 30 per cent. Here is a country which must necessarily depend upon trade and depend upon the empire. While the empire was there it was able to levy an unseen, invisible tribute from that empire in one way or the other. Its economy used to.....

**Shri H. V. Kamath (C.P. and Berar: General):** Sir, may I invite your attention to the clock before you?

**Mr. Deputy-Speaker:** I am aware of the time. May I ask the honourable Member if he is likely to conclude within five minutes?

**Prof. K. T. Shah:** No, Sir, I cannot unless you ask me to. It is a fact that I have exceeded the time limit but then I have so far not covered all the points. I would like to ask for some more time.

**Mr. Deputy-Speaker:** Then the honourable Member may continue after lunch.

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

*The Assembly re-assembled after Lunch at Half Past Two of the Clock, Mr. Speaker (The Honourable Mr. G. V. Mavalankar) in the Chair.*

**Mr. Speaker:** Does the honourable Member, Prof. Shah, want to continue his speech?

**Prof. K. T. Shah:** I have to continue, if you will permit me.

**Mr. Speaker:** He has already taken twenty-five minutes exceeding the time-limit, but he can take two or three minutes more and bring his remarks to a close.

**Prof. K. T. Shah:** I will try and confine myself within the time-limit you have prescribed.

**Mr. Speaker:** It is not a question of trial; he should do so.

**Prof. K. T. Shah:** I was speaking when I left off about the peculiar nature of the British economy which compels them to resort to measures of this kind. I would say in brief that it is an economy mainly organised for exchange. Their production is for exchange and not so much for use. It is an unfortunate legacy we have received wherein all trade, commerce or exchange gets a disproportionate weight in organising the country's economy. Ours on the other hand ought to be and till recently was a different type of economy altogether, but being tied to the chariot-wheels of Britain we also are being forced into making a semblance at least of our economy being also dependent upon exchange. I submit that it is because of this that we are obliged to have recourse to things like this that in the end react very harmfully upon our entire national economy. The effects of this measure have been alluded to by the Finance Minister and I shall refer only to two or three of them that in my judgment need more stressing than the Honourable Dr. John Matthai was pleased to do, and that is with reference to the inevitable reduction in the value of our sterling resources which have already been devalued or depreciated by our consent and agreement to keep them in sterling even at the time when we made a settlement not even to distinguish the actual gold that was there in sterling then valued at 64 crores, today probably valued at 250 crores, of which we have got no benefit, and even then we took no steps last year. This year, although some of us did impress upon the authorities concerned that at least at this juncture we must convert our balance into something much more stable, but those in power were not in a mood to listen and take at least the sterling balances as a security for any loan that we might raise in dollar or in gold abroad. The result is today we have, so far as the terms of gold are concerned, to face—whether the Honourable Dr. John Matthai likes it or not—a factual reduction in the purchasing power of those balances, unless he is going to see to it that these balances shall be, not at least, reckoned in terms of gold and not be subject to the unilateral action of the British Government.

The remedies that I would still suggest to the honourable the Finance Minister and his colleagues in the Cabinet would be, first, the de-centralisation and monopoly of the foreign trade of the country in Government with an equal corresponding elimination of all private enterprise, so that any chance of back-door influence, corruption or black-marketing should be avoided and if necessary a couple of black-marketeers and profiteers might be shot.

{Prof. K. T. Shah}

The second remedy that I would suggest is by multilateral agreement or by the introduction of the security and guarantee of a third party like the United States of our sterling balances into gold or its equivalent in dollar and no more contact hereafter at any rate with the British.

The third remedy that I would suggest is that, if this is not possible, we must here and now decide that all the British assets which are available in this country and are still under our jurisdiction should be taken, as it were, in pledge for or as a guarantee that no further monkeying with our balances will be permitted and if resorted to we shall have something with which to safeguard ourselves and our interests.

Lastly, Sir, you should come back to the desirability of an economy organised on the basis of production for use. You must try and eschew the dependence that is growing on foreign trade. You must see to it that even at the risk of a degree of starvation or reduction in food those imports which are weakening our economy and those adverse factors that have so far in the last few months been weakening us are brought immediately under control. I am not a believer in our ability or in anybody's ability of encouraging exports. That is a sop that people with soft brains may swallow, but it is not really a workable proposition when all play the same game. If some were willing to allow others a chance, it may be possible, but under the circumstances I am afraid any hope of encouraging or stimulating our exports is hopeless. With these remarks I would repeat that the action of the Government being such as it is—it is a *fait accompli*—there is still a chance that if they would take measures as have been suggested, the further danger and harm to this country's economy may be avoided.

**Pandit Thakur Das Bhargava:** Sir, I maintain that the action taken by the Government under the circumstances described by the Finance Minister was perfectly right and warranted by the circumstances in which India finds herself placed today. All the arguments that have been placed before us by the honourable the Finance Minister have further confirmed us in our belief and I do not think there are many sceptics in this House who doubt the wisdom of this action. But after hearing Prof. Shah, I am further convinced that this was the only right course which was open to the Government. I would like him to meet the arguments of the honourable the Finance Minister and to reply to them. Whether it is due to the logic of events or the compulsion of events, I maintain that this is the only proper course of action which the Government could have adopted. What would have happened to us if this course had not been adopted? What other alternative was open to the Government? That is the question which we must address to ourselves. The Honourable Finance Minister has said that in the economy of India, with 75 per cent. of her imports and exports in soft currency area, the country could not have adopted over-valuation of its rupee, as its basic policy. The result would have been that all the exports would have been practically wiped out. And so far as imports are concerned, as imports are also based on the value of the exports, after some time, we must have found that the Sterling Balances were exhausted and we would have been at our wits end. Therefore, this part of the argument remains unanswered, and it is really this argument which enforces us to the conclusion that as a matter of fact, the course adopted by the Government was the right one.

Sir, the connection of centuries cannot be washed away by logic. We must remember that we are part of the Commonwealth. It is not merely our choice that we have become part of the Commonwealth, but the compulsion of events was there, and I do not see how as long as we belong to the Sterling area, we can get away from the realities relevant to this situation. We must stick to the obligations belonging to the Sterling area. Whether good or bad, as long as we are members of that area, as long as we are enjoying the rights or benefits of

that, we must also discharge our responsibilities. When we look at our imports and exports, we are driven to the conclusion that England is our best customer. So far as figures go—I take them from *The Fortnightly Review*—in the nine months ending December 1949. The imports with Great Britain were something of the tune of 102.15 and the exports about 70.44. Now this figure of import is almost a third of the total of our imports.

Now, much has been said about the Sterling Balances, and when I examine the argument of the learned professor, I come to the conclusion that he is at one with the honourable the Finance Minister in thinking that we must not waste our Sterling Balances, and that we must see that their value is not decreased. Suppose India over-valued her currency, what would have happened? The difficulty is we are so very much tied to the Sterling. We must recognise the fact that for some time to come, we will be tied to the apron strings of Great Britain. It may be good, or it may be bad. But the fact remains that we cannot get away from that position. Therefore, my submission is that the Government has done the right thing, and the only thing that it could. While I say this, I cannot congratulate our government or any government on devaluation. After all, what is devaluation? It is a bad thing for the public economy of any State. It means that we have to part with more money for less goods, or you get less goods for more money. Therefore, devaluation means only a confession of the failure of the economic system or the currency of the particular country.

Now, complaints have been made against Great Britain, and I join in the complaint about the manner in which Sir Stafford Cripps dealt with this country. The manner in which he dealt with this country is simply disgusting, to say the least. I cannot understand why a country like Great Britain, with Sir Stafford Cripps as the Chancellor of the Exchequer should have behaved in this manner with any sister country and with all the other countries of the Sterling area. If it is a partnership, it is a Commonwealth, then the interests of the other countries should have been equally dear to those who were put in charge of it. But, without consulting India, and without consulting the other countries, Great Britain has devalued its Sterling. It so happens that we are not the only country in the Sterling area. About 21 countries also have devalued in the same manner. If any justification were required for our country, this is enough justification, that all the countries, except Pakistan, have devalued their currency, and they have all been dealt with in the same way, so far as appearances go. I do not know if the Finance Minister of any other country was consulted by Sir Stafford Cripps before he agreed to the devaluation of the Sterling. Now, I regard this not only a breach of faith, but I regard it as something worse, that our Finance Minister was led to preparing a brief for the Chancellor of the Exchequer, and on its basis all the negotiations were gone into at Washington, and ultimately without calling him, without informing him of the other relevant matters, all of a sudden, the currency is devalued. So far as this aspect of the matter is concerned, there is enough reason for not devaluing the currency as a result of devaluation of Sterling. But we have done so, not to imitate or placate Great Britain but we have, as a sovereign body done a sovereign act. Our Government, in self-interest alone agreed to this course. There was no other course open to Government, and I want that this Assembly should approve of this action of the Government.

I know that this devaluation of the currency must mean very great hardship to us, and to countries which are not industrialised. For countries which are fully industrialised, devaluation though a bad thing, yet it can result in certain situations in benefits. So far as England is concerned, I understand she will be benefited by the devaluation. But what about benefits to the other countries of the Sterling area? India as the result of devaluation also will have to go to England for capital goods, and the same is the case of other unindustrialised countries which depend upon agriculture. So far as England is concerned, her

[Pandit Thakur Das Bhargava]

main problem is unemployment or increase in her production. England will make up her economy. The economy of England will certainly improve. But so far as India is concerned, we have not fully industrialised. We are an agricultural country. We cannot speed up our exports in the same manner as England. So far as we are concerned, I would have been very happy if what the Honourable Prime Minister said comes true, and if the internal prices in India are not affected by the devaluation. But my own reading is that the middle classes and the persons of fixed incomes and the labourers would be hard hit to a certain extent, and perhaps to a large extent, if we do not adopt measures which we ought to adopt. I do not see how this devaluation will give a stimulus to our exports, or how the greed of our industrialists would lessen or how the Goslow policy of labour would improve. As a matter of fact, if my humble opinion carries any weight, I would simply say that the remedy for this malady does not lie in attempting to do the impossible. An unindustrialised country which wants capital goods will get them at greater cost. Our raw materials will go to the other countries for less cost. We will be the losers all along the line. All we can do to meet the situation is to obey the commands of those who have real insight in our circumstances and who are really the benefactors of our race. The genius of India is simple living and high thinking. If we do not leave away luxury goods, if we still need luxury goods, I do not see any hope for my country. If we ban future imports of food grains, if we are self-sufficient in cloth, if we again begin to use coarse cloth, there is hope left for us. But if we want to live in luxurious fashion, and if we want fine cloth, I do not think we can be saved from calamity. I understand that this year twelve crores worth of fine foreign cloth was imported into this country. I beg to ask who is responsible for this. For about fifty years we have been hearing of swadeshi and the cult of having our own cloth. The tyranny of Manchester and Liverpool have not been forgotten by us and yet, last year, twelve crores worth of foreign cloth was imported to this country. If this is the manner in which our economy is to be managed, I am afraid no amount of effort on our part will avail us. If we ask who is responsible for allowing this much of imports, the reply is that less sterling were released because we did not spend more and thus there was occasion to see that the O. G. L. was made still more open than the Sterling released by the United Kingdom were utilised by us. Therefore we just allowed this import. I cannot understand this plea. If this is to be our policy, I am sure we will not be safe.

Sir, in order to live in comfort we want two things, food and cloth. India grows sufficient cotton for coarse cloth. As regards food also, this country even now produces enough food for its people. It is wrong to say that there is shortage of food in this country. I maintain this not on the basis of the figures supplied by official agencies. I know that there is not a single village in the whole of India which does not produce enough for its consumption. Unless and until the ban on imports of food-stuffs is imposed our economy cannot be restored. If we import food grains from America, we will have to pay good price and therefore the cost of living will be greater. Supposing we want to import cotton from Pakistan and that cotton is used for manufacturing fine cloth, then the result will be that cloth will become dearer and, so far as the poor man is concerned, the cost of living will rise higher. We can only be safe if we adopt the maxim: 'Simple living and high thinking'. We should decentralise our industries and stimulate cottage industries on the lines adopted by Japan. Then alone we can be safe. If, instead, we go on imitating the western countries in our desire to raise the standard of living, we will be taking the wrong road. I do not understand the meaning of the standard of living. For Indians good milk, cloth and food are the only things required to lead decent lives. If people want to live like Londoners, all these efforts of ours will be of no avail. Our salvation lies in being self-sufficient in cloth and in food. If we are self-sufficient in these two items, our economy can be restored and

we can rise to our full height. On the other hand if we go on imitating the western countries we shall assuredly come to grief.

Sir, on the question of devaluation my suggestion is that we should say good-bye to our old policy and, as suggested by Professor K. T. Shah he was so indignant at the adoption of this policy that he lost all sense of proportion,—adopt the four proposals he has made. Our legal linking with sterling is already broken. After seeing this behaviour of the British Chancellor of the Exchequer, I am of opinion—and there are many others in this House who agree with me—that we should see that our economy is not tied down to that of England. I know I am speaking of a remote possibility. Today it cannot be done. We cannot break off our old associations in a minute. All the same we should lay the foundations of our economy which should not be tied down to the economy of any other country. As the Professor has urged in the last portion of his motion all possible steps should be taken for alleviating the situation. We are all agreed with regard to this. As regards how this could be done I suggest the formation of a committee of experts who have knowledge of the business to advise the Ministry.

Sir, I happen to be a member of the Finance Committee. Many schemes costing crores of rupees come before the Committee for sanction and we do sanction them. I always wonder where the money would come from. No proposal of spending on foreign cloth comes before us as the Finance Committee has nothing to do with it. I have felt that there should be an organisation consisting of the Ministers of Industry, Commerce, Food and Finance to consider all the schemes at once in one whole and overall picture. That organisation should have economic experts. They must consider the proposals together and lay down a policy for the whole country for regulating imports and exports. I also agree with the suggestion made by Professor Shah that there should be a corporation which should be solely responsible for exports and imports. Private exports and imports should not be allowed. In the face of the present acute situation we should take drastic steps to meet the drastic situation. Unless we adopt any of these suggestions we will not be safe.

**Mr. Naziruddin Ahmad** (West Bengal: Muslim): Sir, I do not think we have done the best for India in devaluing the rupee. But I must admit that the circumstances detailed by the Finance Minister compelled us to adopt the course we have adopted. How this action will benefit India will depend upon the manner in which we meet the situation.

So far as the United Kingdom and the United States are concerned, they have entered into an agreement for their mutual benefit. The United States will get raw material from England at 30 per cent less, and the United Kingdom will sell some goods to the United States 30 per cent cheaper. In that way they have helped each other and their contract is absolutely intelligible from the standpoint of their self-interest. But the question whether it will benefit India depends upon the internal situation here. We must of course take into account world forces, and in doing so, we should keep in view India's benefit as the deciding factor.

Sir, as a layman I find that we have got to pay for American goods 44 per cent more than we would have paid before devaluation and we could have got English goods at 30 per cent less. Then there are the Pakistan complications. There are the questions of East and West Bengal. I find that these are so inextricably mixed together culturally and economically that any hasty step taken will lead to serious complications. I will not go into the merits of the Pakistan decision, because that is based on intricate considerations with which I am not familiar. But, I should say that steps should be taken to mitigate the ill-effects which would certainly follow the present policy. Some of the difficulties which will follow this devaluation in India are rise in prices. This consequence has already become a realised fact. There are the American

[Mr. Naziruddin Ahmad]

medicines. A doctor who cannot cure, will at least inevitably prescribe an injection which is American. That has already left the market;

3 P. M. the market is entirely empty. You can get them in the black market.

If you do not pay 44 per cent more; you do not get the thing at all. You have to pay several hundred per cent more. Many important foreign medicines have gone into the black market. In fact, these black marketers have taken time by the forelock and they have gone with a much greater speed than the Honourable Dr. Matthai can go. This sugar business is an eye-opener. One should have thought that on account of excessive production, the black market was a thing of the past, or it was a dying quantity. As soon as they got the opportunity, the black marketers are again raising their heads.

The question is what are we going to do to check these black markets, to check these high prices, not the normal rises, but the speculative rises. The only thing that the Government and this House is capable of is to pass a pious resolution, pious declaration that high prices must go and black-marketing must stop. The question is, would any black marketer listen to it? Would things be cheaper? These are some of the questions and the answer will depend on how the Government can meet these difficulties.

Then, there is the expectation. The honourable the Minister for Finance said that we should export more and import less. This argument, I believe, would defeat itself. I believe that every country in the Sterling area would try to export. Everybody would try to export things to England while England is trying to export its own goods. As Professor Shah has indicated, if everybody would try to export, who would be there to buy? In fact, there is an attractive fallacy in this supposition that we could save ourselves by export. The principal exports from India are tea and jute. With regard to tea, the situation is very easy. With regard to jute, there are complications. Of course, I share the public feeling that East Bengal is taking advantage of the situation. There are 70 per cent. producers and they are in a position to dictate terms. They are imposing dictatorial terms taking advantage of their superior position and special advantage of the devaluation. I think a time will come when they will have to devalue to the extent we have done. There must be give and take. Jute will have to be sold to anybody, at least to us and then I find there will be some solution. But, what about the immediate present? Can we export jute goods? Have we got sufficient raw materials? It is, not enough to say that we shall cultivate jute. That would clash with our food programme. In fact, the normal trade channels between East and West Bengal, so far as jute is concerned, would be the normal remedy. I hope both India and Pakistan will realise that it is to their best interests to come to terms.

Apart from these general aspects, I have nothing more to suggest. It is an expert matter and experts would deal with it. The only point which I should emphasise is the attempt on the part of the Government to mitigate the difficulties. One passage from the speech of Mr. Churchill has attracted some amount of notice by the honourable the Minister for Finance. In fact, he took Mr. Churchill very seriously when he demanded some share of the war expenses from India. He should not have taken him very seriously. He was speaking just before an election and he was addressing more his electorate than the world at large. In fact, India owes nothing to England. But that is not the point. In the circumstances in which we find the conservative people in England to-day, no serious notice should be taken. I should only ask the honourable the Finance Minister as to what practical steps should be taken to save our people, to save our industries and how we can maintain our exports without having a developed industry in the country, and how we can induce the other countries to absorb our exports when they are anxious to sell their goods to other countries. These are some of the short points which I would submit for the consideration of the House. The most important

question would be how to meet the situation. The difficulties are present there and they are pressing hard. The question is how to meet them. These are some of the comments which I wished to submit to the House.

**Shri R. K. Sidhva** (C.P. and Berar; General): Sir, the honourable the Finance Minister's statement was indeed very frank. As far as I understand, he has put the case before this House not only very frankly, but also correctly and therefore, there is not much for the opposition to attack the Government or oppose the Government unless somebody wants to oppose or attack for the sake of attacking or opposing the Government. I will only deal with some of the important points which relate to this devaluation.

My honourable friend, the Honourable Minister has anticipated me by quoting from *The Economist*, a journal of 103 years standing from London which arrived here by the last air-mail, dated 24th September, regarding Pakistan. I would only like to quote one more paragraph from that. While we are considering devaluation, we must now see how we could bring our economy to a proper and better level. *The Economist* says:

"If, after this devaluation, sterling sags again, if after six months it is discovered that rising costs and unchanged productivity have once again undermined the real purchasing power of sterling, then, the nondollar world will be back in precisely the same uncompetitive posture it was in before devaluation. While the fight against inflation is the first duty of each European government, the British effort will be decisive."

This would apply to our country also. I therefore state that steps should be taken to meet the situation.

The honourable the Finance Minister stated that we should step up our production and increase exports. He mentioned only two items, jute and tea; he forgot to mention, probably through inadvertence, textile goods, which is the third largest item out of the eleven items which we are exporting from this country. I would deal with cotton textiles. The textile goods have got to be looked after properly for the purpose of exports. I can assure you that the quantity could be increased within a very short period and to a very great extent, if not more than double, at least double. I will give you my reasons. The African and Overseas Export Chamber in Bombay which has been in existence for over two decades, are exporting textiles to Africa and other overseas centres. The Government have given to the industrialists a certain percentage, 17 per cent more than the price prevailing for the local markets. That is to say, 17 per cent extra rates have been fixed for those who want to export. Out of this 17 per cent, 8 per cent goes to the textile industrialist, 7 per cent goes to the importers and 3 per cent to the middlemen. The 8 per cent that is given by the Commerce Ministry to the textile industrialist is for the purpose of inducing them to prepare a better quality and better packing. But the question is whether it is really done so. They hardly improve the quality or the packing for which they are paid this advance money with the result that the overseas importers always howl that the things which come from India are not supplied in the quality that they have promised.

The Commerce Ministry sent an official to make an enquiry into this matter. He came back and made a statement that the Indian exporters are dishonest and that they are not complying with the agreement that was made for the export of goods. But, Sir, the Commerce Ministry failed to realise as to who was really responsible. It is not the exporters, but the industrialists who are responsible for this practice, because under the Customs Rules no package can be allowed to be tampered with. It should be properly sealed and duly marked. Unless those formalities are properly observed no bale of cotton goods can be exported from India. There is no intermediate stage at which these packages can be tampered with; it is the industrialists who have been playing these tricks. Therefore, Sir, these Chambers stated that the 17 per cent is too high and should be brought down by a considerable percentage.

[Shri R. K. Sidhva]

Last July this matter was discussed and they brought it down from 17 per cent to 15 per cent by reducing the share of the middleman's profits. Now the middleman is the backbone of the whole machinery and the high cost of living has already hit him hard but I shall not touch that point to-day. The 15 per cent is shared between the industrialists and the exporters; the industrialists get 8 per cent and the exporters 7 per cent. At the Conference the exporters suggested that it might be brought down to even 8 per cent, 5 per cent going to the exporters and 3 per cent to the industrialists. The exporters urged that the industrialists do not spend 8 per cent for the purpose of preparing special quality goods; nor are they using special packing. They merely pocket the extra profit. Sir, at the Conference convened by the Textile Commissioner the industrialists threatened that if they were not going to be allowed 8 per cent, they would stop export of goods.

**Shri B. Das** (Orissa: General): How are all these relevant to the discussion?

**Mr. Speaker:** I was just trying to follow the honourable Member. The matter is certainly relevant, but he is going into unnecessary details. His point seems to be how best to stimulate export and the difficulties in the way of stimulating such exports. But if he goes into such details of that point, it will be difficult for him to touch other points within the short time available to him.

**Shri R. K. Sidhva:** What I was saying was that unless they bring down this 8 per cent further, export of textiles will not be stimulated. Moreover, I understand that at present there is conflict between exporters and purchasers over the Income-tax leviable on goods exported as principals to principals tax. I am the last person to support anybody who evades taxation. I would therefore suggest that provisions of sections 24 and 25 of the Indian Income-tax Act should be examined. The industrialist's share of the profits should be reduced to 3 per cent from 8 per cent, and more facilities should be given to the exporters. They are content with even three per cent.

Now, Sir, I come to the very important matter in which I am very much interested and the country is very much interested and that is the supply of foodstuffs. In the year 1947-48 we imported 2·8 million tons of foodstuffs at a cost of Rs. 130 crores, resulting in a loss of about 30 crores of rupees to the exchequer. In 1948-49 Government have decided to import four million tons; nearly double the quantity of the previous year. I do not wish to go into statistics relating to the area under the different crops, their yield, the population in the country, etc. I wish only to stress that the problem of food plays an important part in our national economy and if only we had kept a proper check on this vital matter, I can make bold to say that our economic position would not have been in the doldrums as it is to-day. Fearing that there will be a shortage or deficit we went on importing foodstuffs.

I have proved it by figures published in the press (a copy of which I have also supplied to the Food Minister and also to the Prime Minister) that, even according to Government's own figures, there is no food deficit in this country. They are not my figures. They were collected and culled out from data published by the Statistical Division of the Agricultural Ministry. Nobody, not even Government, have tried to challenge the correctness of those figures that I have presented to them. I therefore contend that to-day as far as the food situation is concerned we are self-sufficient and any further imports into India should be stopped immediately. I understood from the Prime Minister's statement on devaluation that he has issued orders for stopping rice imports altogether. If that statement is correct, I am very glad. But at the same time, I wish to state that import of other food-grains should be stopped forthwith. There is no danger involved in that move. I shall cite only one illustration. In 1947-48 the Indian States wanted 4 million tons; but they were supplied only two million tons. They were quite content with it and

there was no starvation; nor were there any complaints. From this you will see that if you go on importing food-stuffs and so long as food-grains are available in the country, people will demand more and more and your aim of self-sufficiency will never be achieved.

Now, Sir, as far as the population is concerned, according to the Census Commissioner who has been specially appointed for this purpose, he declared the population for the year 1948 as 337 million whereas according to the Ministry of Agriculture (Reference Agenda items 8, 9, 10 third session Economic Commission for Asia and the Far East: Brief prepared by the Ministry of Agriculture: page 14) it is 347 millions. The Census Commissioner's figures are more reliable as he is mainly responsible for the preparation of Census figures. The Ministry of Agriculture instead of utilising the Census Commissioner's figures over-estimated the population by one crore. From this you will see in what state of affairs our statistics are.

Coming to the average adult equivalent of 100, various statisticians have put it down as between 75 and 80. Adult equivalent means from a child of one year upto an age of an adult out of 100 persons, 75 to 80 per cent form an average equivalent. The memorandum of the development of Agriculture and Animal Husbandry, popularly known as Kharegat Report, takes 75 per cent as the average adult equivalent; the Food Statistics of India published by the Government of India on page 111 mentions 80 per cent. On the 20th November 1947 the honourable Dr. Rajendra Prasad, the then Food Minister in the Indian Parliament stated that 54 million population fully rationed, were supplied 94,000 tons weekly which works out to 75 per cent; Dr. Rajendra Prasad in his book "India Divided" has worked out 75 per 100. Against all these expert findings the Food Minister in reply to my question in the Parliament on the 8th March 1949 stated that the 'Adult equivalent is taken at 86 per cent'. How he has calculated, against admitted figures of experts of a maximum of 80, is not known. If you calculate your statistics by raising to 86 per cent. without assigning reasons you will raise again tomorrow by 90 per cent; in this way your economy will collapse. I therefore state that this kind of calculation is not going to help the Ministry of Finance or is it going to improve our economy, if our statistics are so bad. I can cite another instance in which I had an occasion to go into the figures of the acreage of tobacco and I wrote to the Agricultural Ministry as to what was the acreage of tobacco for the purpose of excise duty, which was not being properly levied. I wanted to draw the attention of the Finance Ministry to this fact. He gave me a figure of 6 lakhs. When I referred to the Board of Revenue I was told that the figure supplied to me by the Agricultural Ministry was incorrect. They said it was 5 lakhs. I have this official statement with me. As a matter of fact, I have the letter of the Food Minister and the Chairman of the Board of Revenue. The honourable Minister has written to me saying that he is reconsidering the statistical position and taking steps to bring it into proper perspective. After all, your statistics is the fundamental thing and if that differs from department to department and from one place to another, I do not know how he is going to improve his economy. I would like to tell the Finance Minister that unless he is going to take this seriously, he is not going to make any headway. My friend, Prof. Shah, having opposed the Government action, did not place any condition or alternative proposal beyond abusing the British Government. They are the people who originally brought our economy to this disastrous condition. I appreciate his other arguments. I repeat that unless the Finance Minister is certain that his statistical figures are correct, not only will they not be good to him for purposes of devaluation, he will also never be able to balance his budget.

Sir, the Finance Minister did not say anything about around retrenchment in establishment. Sir Stafford Cripps announced a 5 per cent. cut to bring his

[Shri R. K. Sidhva]

economy to a proper level, but the honourable Minister did not even mention anything about the 10 per cent retrenchment in administration that he has recommended. I know his is a thankless job but he must take courage if he wants to improve the economy of this country. Unless drastic cut is imposed on the administration side it would be difficult to improve the economy of our country.

Prof. N. G. Banga (Madras: General): I find it rather hard to try to deal with this Government on this occasion and on this subject. I am not inclined to find fault with them for having taken this decision to devalue our currency. At the same time I am at loggerheads with more than one Ministry for the way in which they have been mismanaging the affairs of the State in this country for more than one year—at least from the date on which we are supposed to have become free.

My honourable friend, Dr. Matthai, had told us in a glib fashion that there is no such league at all between the rupee and the pound, but in what different manner have we behaved this time than the manner in which the old dependent Government used to do whenever the British Government had taken similar action? Was it not a fact that in 1930-31, when Great Britain had gone off gold the Indian Government also followed suit? Have we not done the same thing now? What is the difference? Then they had no other choice because theirs was a subordinate government. Now, too, we have no other choice although we are supposed to be a sovereign government. I need not labour that point. But let me tell my friend that there used to be what was known as the Empire Dollar Pool. In what way is that different from the Sterling Area Pool, except this that in addition to some of the Empire countries, there are some non-Empire countries? And some non-Commonwealth countries also! One difference he makes out and that is that while in the past we used to be a contributory country, now we are a beneficiary country. It may be so, but who is responsible? May be not this Government! Is it not true that this Government has not done enough in order not to allow our deficit balances to go on growing? As I was saying in another place, it is a fact that this Government did not take sufficient steps not to prevent more and more imports into this country, with the result that our adverse balance of trade has gone on increasing.

This morning, Prof. Shah was estimating that our adverse balance of trade is likely to be Rs. 300 crores this year. Sometime ago the Eastern Economist estimated that it would be Rs. 250 crores. Whether it is Rs. 250 or Rs. 300 crores, it is a substantial and staggering sum, and how have we come to this plight? Why is it that our Commerce Ministry did not take sufficient care early enough to implement the recommendations made by a Committee known as the 25-Manpower Committee. It recommended that this Government should control both exports and imports through State-trading. Nothing has been done. We were told that the Commerce Ministry was to study the possibility for it and appointed a committee. I suppose it had appointed a committee but the committee never met and we were told that this Committee was to meet sometime hence, that is, six months after it was appointed. Now all these six months the Commerce Ministry seemed to have gone to sleep. Then we were told every step was being taken by the Industrial Ministry to produce more and more even on the cottage industrial front so that it would be possible to export these things to America and other countries. Two years ago a decision was taken by the Industries Conference that there should be a Cottage Industry Board. A year ago this Board was brought into existence and since it has been brought into existence, what has been done? Except for the opening of the Emporium here in New Delhi nothing has been done. Of course a few sub-Committees and other committees have been appointed but these Committees by themselves cannot deliver the goods. It is a fact, and every one admits it.

that our cottage needs have a good demand in America and other dollar countries, and yet we are unable to do anything. In fact what is happening is—with our Government especially—that we make many pious resolutions but there is no sufficient resolve, no sufficient energy and dynamism to give effect to these resolutions.

Take any one of these Departments—you find the same story. Take the Food and Agriculture Departments. There was some machine devised some time ago for an agricultural scientist to test the manurial capacity of cowdung while making use of its combustible qualities for fuel purposes. I have drawn the attention of the Food Minister to this particular device. It is nearly two years and nothing has been done in that direction. There are thirteen machines in this country which were imported here at a cost of 4/5 lakhs per machine and they were supposed to be good for drilling in order to sink your tube-wells. Most of them are unemployed. Several people have made suggestions as to how they can be better employed and yet nothing is being done by the Food Department.

Coming again to the Commerce Ministry, sometime ago the *Eastern Economist* drew their attention to the fact that our adverse balance of trade was growing and something should be done. They suggested that our imports should be cut down, that luxury imports should be stopped, etc. But the Commerce Minister was not inclined to take as serious a view as the *Eastern Economist* would like. *The Eastern Economist*, I can say it on very good authority, is just as good for our own purposes and economies as for English purposes.

Then there is the Finance Minister. He himself has told us.....

**Shri B. Das:** A capitalist paper!

**Prof. N. G. Ranga:** It does not matter whether it is a capitalist paper or not. But it talks and says quite a lot of sense!

Now the Finance Minister told us that two months before this decision was taken by Great Britain to devalue the pound sterling, he had an inkling that this was likely to happen. During these two years all that he was doing was to ask his various experts to go on studying the possible repercussions and advise him as to what to do.....

**The Honourable Dr. John Matthai:** Two months.

**Prof. N. G. Ranga:** If I said two years I meant two months!

**The Honourable Shri N. V. Gadgil** (Minister of Works, Mines and Power): Devalue it!

**Prof. N. G. Ranga:** During these two months what the Government of India tried to do I would like to know. Did they try to step up our exports and bring down our imports? Did they try to step up our own internal production? What steps has the Finance Minister taken to see that Ministries acted up to our expectations in order to bring down government expenses. In the Standing Finance Committee he said that he was thinking of the various possibilities by which the salaries and allowances could be brought down. He goes on thinking and every one of these ministries goes on thinking and there is no end to their thinking. They never come down to brass tacks with the result that Mr. Sidhva had to tell the Food Minister that his statistics are entirely wrong.....

**The Honourable Shri Jairamdas Doulatram** (Minister of Food and Agriculture): I will be able to explain tomorrow that he has misread them.

**Shri B. K. Sidhva:** I accept the challenge.

**Prof. N. G. Ranga:** So far as the statistics are concerned I can say this much, that the Commerce Ministry was not able to forewarn the country that we were going to be faced with such a serious adverse balance of trade that our

[Prof. N. G. Ranga]

exports are not good enough and we had to stop the food Ministry's imports. So far as our exports are concerned, as soon as I came to know that Mr. Sidhva was making his statement, I contacted the officers concerned and they told me that we cannot very well depend upon the Census Commissioner's figures and that we have to depend on some other figures. Their only explanation was that along with those figures the Census Commissioner also goes on making estimates on the basis of births and deaths, really speaking there is no regular census taken every year and therefore you cannot depend upon those figures. It does make one feel that there must be some sort of objective towards which this Food Ministry experts and officers and the whole brood of them must be proceeding and that is somehow or other.....

**Maulana Haarat Mohani (U.P.: Muslim):** They are a white elephant.

**Prof. N. G. Ranga:** to stick to those figures which would help them to make out a case for more and more imports, more prolonged controls over food crops, distribution, storage and the rest of it with all the evils therefrom. If that is not so it is for my friend not only here but also outside to make out a proper case, if he wishes to, to prove that all the food imports made are absolutely essential and there is no mistake being made in this matter at all. He cannot claim that his statistics are foolproof. I would like him to read the Bowle-Robertson report who have stated that our statistics are in a very primitive condition. Can the Honourable Minister say that sufficient steps have been taken to improve our own statistics on the agricultural front, on the food front, not to speak of the other fronts relating to different ministries. That is why I cannot for a moment think that this Government is really meaning business. (An Honourable Member: "What next?") Next is that we have not been told by the Finance Minister to what extent we are likely to suffer by this devaluation so far as our sterling balances in London are concerned. It is quite possible that because we have also devalued to the same extent as they have done we may not suffer very much in our trade relations with England. But what about the possibility of converting the sterling balance into dollar exchange. There was a time when the previous Finance Minister used to please us by saying that he was going to try to get as much of the sterling balance as possible converted into dollars and make them available to us, so that we would be able to import capital goods from America. What is it that our friend has achieved in this direction during the last conference which he attended? He has not told us that. To what extent will we suffer as a result of the devaluation he has not told us that. I am afraid we are going to suffer.

Prof. Shah was right when he said that after all it is mere jugglery on the part of the devaluing countries. They imagine that they would be able to gain a lot at the expense of the Americans by exporting more and more of our goods. But America cannot be very much relied upon. I agree with him that the Americans also are keen on their own industrial development. There was sometime ago quite a lot of talk about what is known as economic recession in America. This has now been given the quietus. Nevertheless have we considered as to how they would react to our action? Are they going to continue in the same way we expect them to do, that they would react in such a manner that it would be beneficial to us? Let us take that also into consideration.

Lastly the Finance Minister said that it is going to give some sort of stimulation to investment of American capital. If American capital comes into this country for every dollar they would be able to get Rs. 4/4 instead of Rs. 3/8. They would get more and more rupees for their dollars and with that money they would be able to develop this or that. But what about the incidental inflationary spiral that would be created in this country? Has he considered that. Has he tried to negotiate with them saying "You are getting this advantage: are you going to invest any money in our country and if so,

to what extent? Our friend Mr. Gadgil has been going about singing songs of the future heaven he is going to usher in, that Bhagirathi will come down flowing from the Himalayan heights, irrigating our fields and raising green crops all over, through all his dams and projects. The whole lot of them have now gone into the Bay of Bengal, for there is no more money. Capital expenditure is going to be cut and if that is so how are you going to implement these projects in the country? Therefore we are in for a lot of trouble. Turn any side you like there is no hope. We wanted to find some hope from the gentlemen of the treasury bench but I am obliged in all seriousness to have to say that after having seen the Treasury Bench all this time I am not at all satisfied with those gentlemen.

**Shri T. Prakasam** (Madras: General): Sir, the present devaluation trouble is not a new one to us. It is a continuation of the old trouble, the trouble which started with the introduction of the exchange ratio 140 years ago by Britain. Since then we have struggled on. In 1927-28 the ratio which was 1s. 4d. to the rupee was enhanced to 1s. 6d. Sir Basil Blackett, who was then the Finance Member, on the floor of the House fought for enhancing that ratio. We resisted it to the best of our ability, because it would be a loss to the country. Finally he succeeded by getting one vote more. Since then with 1/6 ratio Britain has been expecting to get over her troubles. Instead of that she got into more serious trouble. That serious trouble was what was known as the first world economic depression. It did not merely affect individuals or individual millowners. That distress affected the whole country. They did not know how the disaster was coming. That disaster did come. When it did come, Germany became literally bankrupt. Germany put up a notice board in the State Bank asking people not to present their marks because the gold and silver in their treasuries had been transferred to America in lieu of her debts. England did not become bankrupt fully—it was very near it. Britain's pound was selling in the foreign market at seven shillings or eight shillings. Today, at the time of this devaluation of the sterling and the rupee, the British pound was selling in the foreign market at the same low rate. These are all things which the Honourable the Finance Minister, Dr. John Matthai, or any of his experts has to examine and find out how the whole thing ended last time, how the world was benefited, in what way India was benefited and how we can be benefited now. We have got to be benefited now. That is why I have been anxiously waiting to see that the whole thing should be changed. I am for the change of the whole thing. Cutting off this connection with the British sterling is my aim, and I long for it, and I hope I will be able to see that day. Although we have attained freedom it is really not right to say that we have attained freedom. For years we were carrying King George's crown and his face upon our currency notes and we have been practically dependent on Great Britain. Although we became free by way of sending away British people from India, we have not really attained freedom because we have been tied down on this currency business to Great Britain. I am anxious that we should get out of this as quickly as possible. I am also anxious that our Government should not have any trouble at our hands on account of the ratio. How did this exchange ratio come upon us in respect of the sterling devaluation and the rupee devaluation? The other day the Prime Minister was telling us that we were not bound to accept the ratio and that we were not bound to follow Great Britain's example, but yet we followed it. That also I could understand, that is, yet we followed it. Sir, I was hearing closely the statement of the Finance Minister, Dr. John Matthai. When you followed their action, did you consider what should be the devaluation of your rupee, what the position of your country is and in what way you would be able to get along with Britain? Britain was fully prepared for the last three or four years, ever since this war trouble came. And they got into trouble. They got into what trouble? In 1947 the British Chancellor of the Exchequer, the

[Shri T. Prakasam]

predecessor to Sir Stafford Cripps, Dr. Dalton, explained his position. He said that he had to suspend the sterling ratio altogether because of the losses which he and his country had been sustaining. On what account were they sustaining losses? He explained the whole position in a statement how he had to pay on a single day 18 million dollars and for five or six days how many million dollars he had been paying, how the country had become bankrupt and how they could not stand it longer. That is why he decided at midnight "we suspend this because we are not able to put up with it". Will the Honourable Dr. John Matthai tell us what is in future for us? It is only twenty days or less than twenty-five days since the devaluation of the rupee and the sterling has taken place and can anybody say what is ahead? Last time what happened? Britain had to escape through the teeth of her skiu. British markets were flooded with Russian goods which were very cheap goods then. Britain did not know, the British Chancellor of the Exchequer did not know, the British experts did not know, the British Cabinet did not know. But the British merchants came to the rescue of their country and they said "How did it come out that Russia was able to send cheap goods and our market is lost?" A Commission was appointed and it went round. It found out the truth about it. It was the difference between the wages paid by the Russian Government to the labourers and the wages paid in Britain. Therefore, when reduced, although it appears to be very big and grand, if you go to the bottom of the whole thing, in the common man's language the whole thing started on account of the difference in wages of the Russian coolie and the British. What did Britain do? Britain always had the brain. Whether Britain had the gold or silver in her treasury or not, the brain was hers. By that she had the capacity to come out of any trouble. At once she found out that free trade policy must be abandoned and that she must adopt a policy of protection. She prevented the Russian goods and all other cheaper goods from entering her markets and she thus managed to get out of her difficulty. And we are getting into trouble. I am giving you a warning. There will be trouble but we may be able to get out of it because of our natural resources and the inherent potentiality of India. If properly managed and handled, it could certainly be managed. Who knows? In the case of Britain, within twenty days, Sir Stafford Cripps declared yesterday that the deficit was reduced by 20 million sterling. It is so because Britain was prepared for devaluation. Britain prepared for three or four years to get all that was necessary from America by way of capital, plant, machinery and everything. She got ready. Today Britain is ready to export immediately to America and get the whole of their loss reduced—within three weeks she has reduced it by 20 millions. She will succeed. But where are we? We are tied down to this sterling of Britain. Britain reduced it by 31 per cent. Why should we have reduced it by 31 per cent? We have always been good to Britain, to oblige her, with the hope that she would do something in return. I must say you reduced the value of the rupee by the same extent because you did not take proper steps in proper time. Where was any hurry for us to have said that because Britain has reduced the sterling by 31 per cent we also reduce the rupee by 31 per cent? We should not have done it, for the matter of that. Take for instance Canada. Canada came with it later and reduced it only by 10 per cent. Ceylon found out the difficulty created and she said "we cut off our link with the Indian rupee". Like that we have been cornered. But there is every chance of our escaping if we manage the things properly. That is my appeal now. If you cannot cut yourself off from this bondage of the rupee being linked to the sterling, can this Parliament not reduce the extent? We devalued because we wanted to follow Britain but it is open to us to revise all these things particularly on an occasion like this when a situation has been created which is a catastrophe of the first magnitude? What did you read in the world Press soon after devaluation was announced? Practically the whole world said it

was stunned at it. But this reduction can be minimised if we can possibly do it. The Finance Minister may take into his confidence some Members of the House, appoint a Committee to go into the whole matter and do something by way of reduction of this exchange ratio by 31 shillings to 10 shillings or whatever can be found to be within our capacity.

So far as food is concerned, we have been really guilty for the last three years. In 1947 we paid Rs. 100 crores, in 1948 we paid more than Rs. 130 crores and in 1949 more than 200 crores, roughly estimated at one time at 22½ crores. Is there any country in the world that could purchase foodstuffs to this extent? Therefore I suggest the solution lies in our own hands. You can reduce the food imports, you can stop them if it is possible from 1950 instead of saying that you are bound by an agreement to stop it from 1951. No agreement can be sanctimonious to us when we are thrown into such a serious trouble and it is open to us for revision. Any reasonable country should agree to our position.

This is a time when we have been in the throes of inflation not for one, two or three years but continuously. No doubt some of us are enjoying food and cloth and other privileges. But go into the interior, not into the delta area where there is plenty of water and food, but go into the upper regions of the river and see what those people are having. Are they having the benefit of the imports of food that we are getting? No. Therefore, I would suggest that though we have not been able to get out of the inflation, before we could hardly make any attempt to get out of it this thing had come upon us which will lead this country to disaster. I hope I am wrong in saying that. In view of the experience of the last economic distress of the world and because we are within 25 days of this calamity overtaking the whole world and the country, I would submit that something useful may be done in this direction.

**Shri Arun Chandra Guha** (West Bengal: General): Sir, along with the sterling the Indian rupee has also been devalued and about 27 or 28 other countries have also devalued their currency. In private individual life this may be called something like declaring bankruptcy. It is a serious matter for a nation, particularly for a young, independent country like India to devalue her currency. It has been said that the rupee is not tied to the sterling but the fact is that as soon as the sterling has been devalued our rupee has had to be devalued. The technical or legalistic position may be that the rupee is not tied to the sterling but the hard fact is that the rupee has to go down with the sterling.

I do not exactly know what is our position *vis-a-vis* the sterling area. It may be difficult for us immediately to get out of it because there is the legacy of 150 years; but our free State during the last two years ought to have taken some step so that our currency may not be so intimately connected with the sterling, or broadly speaking, that our whole financial structure may not be so vitally dependent upon the economic structure of another country. This economic dependence is perhaps the greatest danger for a new independent country. During the last two years our economic policy has not been conducted in such a way as to get out of this rut.

Sir, this devaluation of the sterling and of the rupee and the currencies of many other countries may be taken as the collapse of the capitalistic system. I have seen in the Press that some Indian industrialists have characterised it as just the opposite thing. They have tried to read in this collapse of the sterling and rupee, the collapse of the 'welfare State' and they have advocated that the new Indian State should now without any reservation take to the individual capitalistic system.

Practically almost all the countries all over the world have the same problem—the dollar gap. How to bridge the dollar gap is the problem for almost all the countries of the world. Only one country has become richer and richer

[Shri Arun Chandra Guha]

at the cost of all the other countries. At the impoverishment of all other countries only one country has been thriving. If this is not the failure of the entire system, I do not know what it can be called.

I expect, as our Honourable the Finance Minister has said, that this devaluation of the sterling and of the rupee has come as a warning and I expect that they will seriously take this warning and will shape their future political economy and financial policies so that India may have an independent financial policy, so that India may really take the position, at least as regards the Asian countries, as the leader not only in politics but also in finance.

The sterling has been devalued—we are simply informed of it. Only two months ago there was a Dominion Finance Ministers' conference. Even by then Britain must have been preparing for this devaluation; at least she must have had some idea of this coming collapse of the sterling but nothing was disclosed to the Dominion Finance Ministers.

[At this stage Mr. Speaker vacated the Chair which was then occupied by Mr. Deputy-Speaker (Shri M. Ananthasayanam Ayyangar).]

All of a sudden, our Prime Minister was informed by the Prime Minister of the United Kingdom that they had decided to devalue the sterling. <sup>4 P. M.</sup> If this is the obligation which the Government of the U. K. feels for the Commonwealth countries, I do not know how a self-respecting country can continue to be a member of that Commonwealth. But I think our Government should have taken into consideration some other points, particularly regarding our neighbouring countries, with whom we have vital and intimate economic and commercial relations, such as Burma, Pakistan, Ceylon and also, I may say, Siam and Indonesia. Somehow or other, we ought to have carried those countries along with us and allowed them to feel that we might have a common economic and financial policy.

Since the devaluation of the rupee, the Honourable the Finance Minister has been silent. What he has disclosed now in this House, I think he ought to have disclosed at least some days earlier. The delicate relation with Pakistan is very intriguing at least for the part of the country from which I come, namely, West Bengal where business is now almost at a stalemate. All along, we were under the impression that Pakistan was not consulted by the Government of the U. K. or the Government of India; that they were simply ignored, and so out of wounded pride or vanity, Pakistan had taken the step that she had taken. But the fact that Pakistan was at least informed by our Government is one about which I feel our Finance Minister should have taken the country into confidence and he should have announced it a few days earlier. He ought to have made, as Cripps has made, a public declaration about the policy underlying the devaluation of the rupee. I do not know why the Finance Minister kept silent all this time.

Anyhow the rupee has been devalued and I admit it is not possible for the Government just now to reverse that policy. I may also agree that there must have been some compelling circumstances which have made those who are in charge of the Government to take this step. At the same time, I would like them to consider what an amount of psychological and economic effect this step may have on the country. They have given the hope that the price structure would not be altered and the Finance Minister has declared that with the cooperation of the provinces and States, they would try to reduce the price of consumer goods by 10 per cent. In the last two years, the Government have given so many assurances, but I regret to say most of them have not been fulfilled. In the Budget speech last year, the Finance Minister said: "Our financial position is intrinsically sound". Today he has declared that

for the last two years we have been living beyond our means both internally and externally. This is a sorry confession on the part of the Finance Minister.

About this time last year, they took up the problem of fighting inflation. They set up certain committees and they made certain recommendations. At least on certain points, all those committees were unanimous and the Government accepted some of them. But I do not know how far those recommendations and suggested measures have been given effect to. For instance, one recommendation was that there should not be any deficit budgeting; capital expenditure should be curtailed. But even in the last Budget there has been hardly any serious attempt in this line. Then there was a suggestion about compulsory savings and greater propaganda for national saving. It was suggested in this House that there should be some machinery to induce the rural people to deposit some of their earnings in national savings. That suggestion was simply dismissed as unpracticable; but sometime ago, the Government of India have announced their policy of rural national savings campaign. I only wish that the Government had taken that step some time earlier.

Then, the slogan has been repeatedly raised: "Produce or perish" and in view of it, an industrial truce was also effected between the labourers and the employers and quite a good number of working man-hours were saved; and it has been said on the floor of this House by some responsible Ministers that at least labour has played its part in fulfilment of that truce whereas industry and capital have failed to play their part. Still, the Government's financial policy has all along been to give more favours and privileges and advantages to those parties who have failed to play their part, who have—to quote some Ministers—"betrayed the trust". Now, we have come to this condition that our money has to be devalued. The nation has been given the hope that the price structure would not be altered; even if the price index could not be brought down, at least there would be no rise. But circumstantial and psychological conditions are making the position to grow worse. Already gold has shot up in price and with further increase in the price of gold and silver, internal procurement will become more difficult. So long we have been purchasing from dollar regions because we found those purchases more advantageous and less costly than in sterling area. Today purchases from sterling areas would be more costly and the concentration of all these demands in a particular area naturally would tend to raise the price of those commodities. Further, it is hardly possible that the sterling area would be able to supply all our needs, because most of these countries have the same malady, how to bridge the dollar gap. They would divert almost all their exportable goods to the dollar region, so that their own dollar gap may be bridged. So, it is not likely that we shall get all our requirements, particularly of capital goods, from the sterling regions. I think the replacements and the new machinery that would be required in the next two or three years would be worth about 400 crores at least for a portion of which we shall have to go to the dollar regions. Therefore, it is quite likely that the price structure would be altered and there will be some rise in the price index. But, then, some precautionary measures should be taken by the Government to counteract all these evil effects of devaluation. We should set up a state trading corporation to have a state monopoly of foreign trade.

I would also suggest that from the very beginning we should have concentrated more upon building up our internal economy than on going for foreign trade. After the Revolution, the Russian State had practically no foreign trade. With all their vigour and energy they built up their internal economy. Only then, they could have some surplus money for their foreign trade. Some months ago, we knew there was something scandalous about the import licences. This Government with so many experts and efficient men ought to have done better. Even now, we should concentrate our attention more on

[Shri Arun Chandra Guha]

building up our internal economy. Ours is a revolutionary state; we should not forget that. Orthodox or conventional economies suit us ill at such a stage. Every revolution has its own social and economic theories; our revolution has its own social and economic theories given by Gandhiji. According to these theories, we should first of all build up our own internal decentralised economy.

Lastly there should be rationalisation in industry and administration to eliminate all elements that do not contribute to the socially necessary funds of goods and services. Thereby we can bring down price-index and cost of goods—as well of administration.

**The Honourable Shri Jawaharlal Nehru:** (Prime Minister and Leader of the House): I am grateful to you, Sir, for giving me this opportunity for saying a few words. I should have preferred to speak more or less at the end of the debate. But, unfortunately, I have to leave Delhi tomorrow for a far off country. I shall not be here at tomorrow's debate. I am sorry that I have to leave the country at this particular moment when we have to face so many important problems and when this House would be sitting either in the capacity in which it is sitting now or in another capacity. But, having made certain arrangements and given certain assurances, it is difficult for me to change them.

My honourable colleague the Finance Minister has placed before the House a plain and unvarnished account of the events. No doubt, at the end of this debate, he will meet the various points that have been raised. Others in this House who are more expert in economic and financial affairs than I am will also throw light on the situation. Personally, I shall try to think more of certain basic matters, not being myself an economics pundit, of certain basic approaches to these problems, than of the various other rather complicated and confusing issues that have arisen.

Obviously, we are not in a very happy state at the present moment. The fact that devaluation has had to be accepted is itself rather an index of that unhappy state. If we had been more fortunately placed, we would have gone our own way, not being too much influenced by other events. No country, I suppose, can avoid being influenced by other events in this world in which the various countries are so intimately connected, especially in regard to economic and other matters. Nevertheless, they can be more independent and less dependent possibly, especially in regard to essential things. We have found that we are depending more. That is good for us. Most people knew that, of course. But, this shock has perhaps been helpful in making us feel a little furiously about that. To that extent, it is a good shock. We have for a long time past talked a great deal about more production, about the grow more food campaign and the like. A great deal of our energy has been spent on that, and no doubt, some results have followed. Whether the results have been commensurate with the energy and the money spent, it is a little difficult to judge, for the simple reason that we do not seem to possess adequate statistics. I think that in the last two or three months at least there has been an acute realisation of this fact and probably a more ordered approach to this problem. For some months past, specially in regard to food, I think there has been a marked development.

I do not see myself how we can get a grip of this problem unless we have an overall view of this picture and have definite objectives as to what we are aiming at. Then, we can change these objectives, of course, with experience. But, we must have some overall view. Pardit Thakur Das Bhargava insisted in a slightly limited context on this overall view of the picture. I entirely agree with him except for the fact that I enlarge that picture of overall view still further. He talked more of exports and imports. That is important.

Personally, I should think that we have arrived at a stage when we realise completely that we cannot have all the good things of life together. There are so many good things. There are so many good schemes. Every Ministry has a scheme; every department has a scheme; every provincial Government has a scheme. They are all good in themselves and there is nothing to be said against them. But, we simply cannot have all these schemes, because we have not got the resources, either money or trained personnel or materials, or whatever it may be. If we cannot have all the good things of life, we have to choose which ones are more essential, more necessary than the other. The first thing we have to do is not to have unessential things because they tax our energy and resources. That means, so far as imports are concerned, we must put an end to everything that is not absolutely essential. Then, in regard to what are essential things, there too, we have to lay down some kind of priority. How are we to get at that priority? We can do it in a more or less *ad hoc* fashion, thinking something more important than the other. I think the right approach in order to get at the right priority is to have some fixed picture of what you are aiming at. Having got that, then, we can use that as a yard measure of what is important No. 1 and what is important No. 2. For instance, obviously, the thing of basic importance is food. Unless we have sufficient food in the country, everything goes wrong. We may wait for other things, but we cannot easily wait for long if we are hungry. Therefore food is of the very first importance. And we have laid a great deal of stress upon that, in fact, I would say that we have laid more stress than was necessary, except in one respect, that is in regard to the import of food and in regard to the production of food. I think we have to teach ourselves first of all, and then our people, that it may be desirable even to have slightly less food and to tighten our belts than to import away in huge quantities, at the cost, obviously, of something else. I do not mean to say that we must stop all imports, as some Honourable Members have suggested. That is a matter for the House to consider carefully. We cannot take off-hand decisions in that respect. But I do feel that the approach to the problem should be to import as little food as is absolutely essential, and to spend, if I may say so, the money that we save from importing food, on making more food in every way. That money will remain here. It will go to our farmers and to other folk and thereby help us in a double way. Some time back I suggested, and Government more or less agreed to it, that we should stop rice imports completely, though not wheat, indeed, if necessary, we may get more of it to replace the rice; and I still adhere to that opinion. But I should like that to be carefully examined, because one cannot simply lay down one policy without examining all the consequences and the likely results. But I am quite convinced in my mind that the import of rice should end, and even if we import it, it must be obtained at the bare minimum and treated more or less as reserve for emergencies and not as stock for distribution in the normal course. But I should like to have considerable reserves of more wheat and rice and we should treat them as reserves, unless there is a grave emergency. For the rest, we must rely on our own resources. So the first is the food problem, and we have dealt with it. We have fixed a date—1951—after which we are supposed not to import any more foodstuffs. Many experts and wise people warned us that that date was too near. But personally I am now inclined to say that that date should be 1950 and not 1951; and I do believe—and I say that with all respect to the wise people—that we will confound them and we will produce enough food to carry us round to that date, even if we have to tighten our belt a little, as I said. Now, if we do that, there will be a very large saving on that account alone which we can utilise for other purposes, for purposes of giving help for development schemes, for giving employment and for cottage industries and the like. I agree completely with the honourable Member who just preceded

[Shri Jawaharlal Nehru]

me that we should give much more attention to the development of small-scale and cottage industries. I say so not in any opposition to any plan of large-scale industry, because I believe in large-scale industry. But I am convinced that in India for a long time to come, there is a vast scope for the development of small-scale industries and cottage industries which do not come into conflict with large-scale industries. Further, if you really want a fairly rapid growth in our production, it can only come from the development of small-scale industries, because the large-scale industries—though very important—will take a long time to start producing, while the small-scale industry produces quickly and gives employment. Now, in considering all these matters, we can consider them from the rather crude economic point of view; I mean to say, not considering other aspects of the problem. Or you may also consider them from what I would call the social aspect and the human aspect. The social and the human aspect concerns itself with employment and unemployment. If we are forced by circumstances we cannot, however much we may wish it, we cannot say that we are going to give employment to everybody or to a very large number of people at the present moment. We simply cannot do it, and let us be clear about it. Nevertheless, we have to keep this picture in view, and it is the State's duty to provide employment to all its people. It is not just enough to think in terms of producing goods and having schemes. How we produce them and how far it affects employment and unemployment, that was the human aspect that Mahatma Gandhi put forward, in support of his cottage industries programme. Now, that argument is in no way in opposition to the development of large-scale industries. So I think we have to pay far more attention to the development of small industries and decentralised industries as well as cottage industries. Now, in regard to large-scale industries also we have got into the habit of thinking of various industries and importing machinery from outside for them. We have to do it because we do not manufacture that machinery. There is no choice. Nevertheless the fact remains that we can have no real development till we manufacture our own machinery. And therefore, the most important thing becomes the development of the machine-making industry. Until we have the tool-making and machine-making industry, we are dependent upon others, whether they be dollars or sterlings or something else. So, while we must get machinery to begin with, the sooner we start making our own machinery here the better. Only then shall we be really independent. So I submit to the House that we should, for the present, pull ourselves in, we cannot live beyond our means, as we have perhaps been doing for the last few years. We were enthusiastic and we pursued a large number of schemes—very good schemes though—and now we find we cannot go ahead with them; in fact, we have to slow down tremendously. That slowing down, I hope, will not be for very long, and that, having reconsidered the problem, and having in other ways found resources to carry on that work, we shall go ahead with the essential schemes. But in going ahead, we should consider the over-all picture as to what we are going to do and what the basic essentials are that must be considered before we touch anything else. That will mean, perhaps the giving up of some things that may bring immediate convenience or comfort to us. We concentrate on consumer goods. I have no objection, but I would rather not concentrate on consumer goods, but on capital development and suffer from lack of consumer goods for some years. This will lay a good foundation for the future growth of India. We are all agreed that India has tremendous potentialities, she has tremendous potential resources, there is no doubt about it in my mind, mineral resources, underground resources, good soil, food etc. I think we are also strong in our potential human resources, some actual resources and some potential resources. I am not talking about number alone,—that we have in abundance—but trained human material and human material which can easily be trained, given the opportunity. So it becomes very important to join those natural resources with

the trained human beings. We are apt to think too much—and again I speak with deference to the economic pundits—we are apt to think too much and to attach too much importance to money. I think if we think in terms of something which money represents and which is more important than money, we will be on safer ground. Of course, we cannot do away with money. It is nevertheless important, it is a very important element in our economy. Nevertheless, we must not become slaves to money. And if we proceed on these lines, and pull ourselves and economise in every way, and have a look round and lay down the objectives and the essentials that we have to do first—one of these will be the machine-making industry which will facilitate our industrialisation—then I think we will go ahead pretty rapidly.

Now, some Members suggested—I believe the suggestion was made, though I am not quite clear if any Members in this House made it—that in regard to steps that may be taken in the near future, it would be advisable for Government and for the Finance Minister to confer with some Members of this House, that he may get ideas from them, and the Members of the House may get ideas from him, and that there will be a large measure of co-operation in thinking out this problem and in going ahead with it. Whatever we may decide upon, it is quite clear that when a country faces a big problem, it is not by Government decree alone that things can be done. There must be a great deal of co-operation of the public. Now, the Members in this House are important not only as being members of Parliament, but as links with the people in the country, and it is quite essential that the House should co-operate fully in all the steps that we may take.

I am sure my colleague the Finance Minister will welcome such co-operation. Many of the suggestions made by members have actually been, I believe, accepted by Government and I am sure the Finance Minister has indicated the steps he is taking at the instance of the Members.

**Prof. N. G. Ranga:** It is the implementation of it, we are waiting to see.

**The Honourable Shri Jawaharlal Nehru:** In so far as the implementation is concerned, it would be a great help to the Ministers if honourable Members would keep in touch with the Ministers on this subject.

I suggest therefore that in viewing this particular situation, we should not at all feel depressed. We should think anew in big terms, because it is only when one is faced with difficult problems one is likely to think deeply. The time has come for us to do that first of all. But however deeply we may think we cannot suddenly plunge into big undertakings, because we have to economise now and over a good part of next year. At the same time the attempt at economy should not result in a kind of shrinking in our development plans. We cannot sacrifice tomorrow for the future because of today's difficulties. If we economise today, it is to go ahead much faster tomorrow. If we approach this problem in this way we might profit greatly by the lesson we are learning. (*Cheers*).

**Shri Mahavir Tyagi (U. P.: General):** Has the Honourable the Prime Minister envisaged any cut in the State expenses? That is a point that has not been touched here.

**The Honourable Shri Jawaharlal Nehru:** I thought the Honourable the Finance Minister told you that he intends reducing State expenditure this year by a considerable figure and by double that figure next year.

**Shri Khandubhai K. Desai (Bombay: General):** The Honourable the Finance Minister has placed before us valid reasons for coming to the conclusion that the rupee had to be devalued in terms of the dollar. That is an accomplished fact and it is no use going into past history. Some of our friends in this House have tried to abuse the British Government. Some

[Shri Khandubhai K. Desai]

have taken up the attitude that if Pakistan has not devalued, why should we have devalued? What they mean to suggest is that, in order to show our independence, we must do something which is the reverse of what Britain has done. Would that benefit us? I think the arguments that the Finance Minister has advanced have clearly established, if proof is at all needed, that the present devaluation, taking an overall picture, is in our interest. The hint given is that if he had not devalued the rupee, probably things would have been far more difficult for us. One reason why devaluation had to be done was that most of our international trade, because of our historical relation with the sterling areas, has been with the sterling areas. So, when Britain came to the conclusion in its own interest that it must devalue the sterling, we have to consider whether in devaluing the rupee in relation to dollar there will be any great economic disturbance. The Government came to the conclusion that such devaluation is obvious and inevitable and it will mean the least dislocation in our international trade. If any other step had been taken, I think there would have been very wide disturbances in our international trade. Now that is the position as far as we are concerned; and we have to reconcile to this new set-up.

Sir, the Honourable the Prime Minister has told us that for the last few years we were living beyond our resources. We all had big ideas. After we got our independence we went in for all sorts of grandiloquent schemes and we never looked into the question whether we could meet them all. According to me, as our liquid resources were limited, the position was clear that those schemes could not be carried through. Now, as a matter of fact, this devaluation of the rupee in terms of the dollar has shaken us. It has awakened us. It has shown us where we stand. Now therefore the time has come for us to make the best of this bad situation and try to build up our economy according to our resources and according to our requirements. That is the cardinal fact before us in this country, and we cannot ignore realities but we must face it.

I do not agree with the Honourable the Finance Minister that internally the prices will not go up. They show a tendency to go up. A simple declaration on the floor of this House is not going to bring down the prices. It is true that we are all interested in seeing that the cost of living index goes down. But it would not go down unless tangible and practicable steps are taken towards that end. I personally feel that the first effects of devaluation are over for the time being. We must pause and see what we should do in order to follow it up. Devaluation could first be utilised for the purpose of economic recovery which we have all got in view. But, Sir, I am afraid there is going to be one difficulty and it is this: Historically we have been accustomed to think with the Britisher. Though the Finance Minister declared that we have got no link technically with the sterling or the pound, somehow our mental makeup is such that every now and then we look upon Britain as our patron. What they do we think is the best and we follow. Of course, as far as devaluation is concerned, I have no doubt in my mind that nothing else was possible. It is true that it is the compulsion of events and circumstances that led us to devalue the rupee. Let us now pray and work. It should be the last link of compulsion of events and circumstances. Sir, I think we should be now thoroughly awakened to this fact that Britain has very badly let us down and we must progressively manage our affairs in such a way that in the near future, we will be in a position to act independently in the monetary and financial field.

She had not even the courtesy to consult India. Even though our Finance Minister was there, no mention of devaluation was made to him. When he

returned he came completely convinced that there was not going to be devaluation. But I must really credit him with some foresight, because after returning he thought that there may be devaluation, and so he asked his technical experts to study the problem so that if Britain lets us down we may take steps, so that it may not work to our disadvantage; and when the devaluation came, we were ready with our statistics and reactions, which enabled the Government to act promptly.

Now, Sir, what should we do? This is the history of devaluation; let us forget it. Now let us see how we can follow it up. The Prime Minister has told us very frankly that we must give priority to our exports over our imports. The main problem before us is not the import of manufactured goods, or, as it is called the consumer goods. We must make all efforts for the future to produce more of primary products and food-stuffs. Now the time has come, Sir, when we must concentrate entirely on the production through cottage and small scale industries. It should not be a slogan, as it has been a slogan for the past ten years. While speaking of encouraging small scale and cottage industries, all possible steps have been taken during the last two years of our independent regime to foster, to encourage and to give impetus to large scale industries to expand production. The result has been that no investments have been made in this sector; capital was as shy as it was two years back; it will be as shy as it is today ten years hence. If at least fifty per cent. of all the efforts that have been made by our Government and by our Finance Minister to assist and encourage large scale industries had been devoted to the encouragement of cottage industries, I am quite sure that we would have had more production from those industries and we would have been able to meet the present crisis more effectively. It has not been done. At this critical period in our history, I would appeal to the Government to give up this step-motherly attitude towards cottage industries, and help them, as they have helped large scale industries. Because that is going to be our only salvation for many years to come.

The other point is that we must cut our coat according to the cloth we have got. The high standard of living of the so-called few rich people must be brought down. We must see that no non-essential goods or commodities are imported into this country at any cost whatsoever. They must be completely prohibited. And every rich family, every aristocratic family, must learn to live on the indigenous products. Every one of us must practise unadulterated swadeshi in the interests of the country. If that is followed then I am sure we can come out of these devaluation difficulties much earlier than we apprehend.

Sir, with regard to the impending—I am deliberately using the word 'impending'—inflation, I am afraid that prices are likely to rise. Though the Honourable the Finance Minister stated that there is no logical ground why internal prices should rise, unfortunately the prices have a tendency to be illogical. Therefore, Government must from now take immediate action to see that the prices do not only rise, but come down. He has promised us today that there will be a ten per cent. reduction in prices of the commodities which form the family budget. Let us see how this declaration is going to be implemented.

Exactly after a year we are again faced with the inflation menace. Exactly a year back various interests were consulted. Government then thought that they must carry out all the recommendations that were put forward by the big business and vested interests; they were carried out; but the prices have not come down. The suggestions, though effective, made by humble

[Shri Khandubhai K. Desai]

persons like myself were ignored and no heed was paid to them and we have seen the results. Now it is the turn of humble interests to make suggestions for bringing prices down. Now let our suggestions be carried out. (*An Honourable Member*: "But humble suggestions are never cared for". Our humble suggestions will have a place, because suggestions of big people have not produced any results.

Now, Sir, I have only one or two more points to make. The export and import trade is, in my opinion, a matter which henceforth requires complete scrutiny and discipline. I use the word "discipline" purposely. It should not be allowed to continue according to the behests and desires of private enterprise. I would suggest that a statutory trading corporation should be established. It must be a body through which all the import and export trade of the country must flow. It need not be a full fledged trade corporation in the first instance but should act as a national agency for international trade on the basis of commission so that the whole trade may be conducted in the national interest. I also suggest that till the international pattern of trade is known to us we will be well advised to sit quietly and not to have any business for the next two or three months and see how the devaluation of the sterling in terms of dollar is going to react on the various nations. It is quite possible that even dollar might be devalued. I do not know whether the export and import tariffs may not be manipulated in order to counterbalance the effect of devaluation. Britain thinks she will be able to export goods to America. I do not know whether America will be prepared to buy British goods at the risk of her own production. Now all these questions are very uncertain and it is very difficult to be dogmatic about anything. Therefore we must wait and watch.

Lastly we have got four or five main industries: jute, cotton, sugar, coal and tea. In the emergency these industries also require to be properly and effectively disciplined so that they can be run in the interests of the nation as against private interests and greed. The administration and management of these industries should be rationalized so as to bring down overhead costs with a view to cut down cost of production. They should not be permitted to do as they like but must be made to function in the wider interest of the nation through respective statutory commissions. These commissions will have to take an overall picture of these industries, otherwise all the good results that we would like to derive from this devaluation opportunity will be lost, if we are only guided by the greed and profiteering motives of the vested interests in this country.

With these words, I do support this devaluation because it was inevitable and obvious. Nothing less could have been done. But let us now make the best out of this bad job and pave the way for the economic recovery of the country.

**Shri H. V. Kamath**: Sir, I am rising at the fag-end of the day, yet I hope to lay before the House certain points for consideration; and I hope Government will take adequate measures now and in the near and far future—long term and short term—to meet the needs of the situation. The pound sterling has gone the way of all flesh. The sterling which contributed a word to the English dictionary—'sterling' merit, 'sterling' value—now has no sterling value, and unfortunately our rupee followed the sterling, as if to demonstrate our stealing loyalty to the devalued sterling. In the first place, Sir, I could not understand why this decision to devalue the rupee was taken in such—I will not use the word indecent but certainly needless hurry. If we are, Sir, an independent nation today, if we really thought so and were convinced that we were independent, there was no justification in devaluing the rupee so soon—within less than 24 hours of the devaluation of the pound.

**Shri Deshbandhu Gupta (Delhi):** May I know if the Honourable Member is supporting Prof. K. T. Shah?

**Mr. Deputy-Speaker:** He cannot say it so soon!

**Shri H. V. Kamath:** If my friend has patience, he will be convinced and satisfied at the end of my speech what exactly I have done. Even if ultimately events did compel us to devalue the rupee and perhaps as the Finance Minister told us there was no alternative for us in this matter, certainly we could have waited for a week or two before we announced our decision to the world. The Finance Minister referred to psychology in connection with the decision of Pakistan and quoted the *London Economist* which refers to the "temporary aberration" of Pakistan. I with our Government were more grounded in knowledge of national and human psychology. I have no quarrel with the decision as it has been made, but if our Ministers and administrators had been endowed with a better knowledge of human and national psychology, certainly they would have waited for some time before announcing to the world our decision to devalue the rupee. Even the Bonn Government of Western Germany—I am sure that Government has been far more dependent on the western powers like the United Kingdom, the United States and France than we are today: in fact there was a Military Government in Germany, in Berlin, till a few days ago—held out for a week to show to the world that they were taking a decision on their own and not because the pound sterling had gone the way it had. Their decision did not follow in the wake of the pound sterling. That is my chief quarrel with the decision. Ultimately considering all the pros and cons there was probably no other alternative left to us. But certainly we could have waited sometime at least before we decided to devalue. Even the British Government, what has it done lately?

**Shri Mahavir Tyagi:** Your objection is against the hurry?

**Shri H. V. Kamath:** Yes. It is indeed a very indecent haste, though I do not like to use that word.

The other day, Sir Stafford Cripps, the British Chancellor of the Exchequer referred to Pakistan, and that too after Pakistan had decided not to devalue her rupee; and Sir Stafford Cripps said that it was in the world interest to develop Pakistan and more or less patted Pakistan on the back without making any reference to her decision not to devalue the Pakistan rupee. But I do not know what the British Government have said about us so far. They might have shed crocodile tears, or they may shed them some time in future, but so far we have had no concrete evidence of the British Government acting in such a way as to meet or help us to tide over the crisis. I hope that the Prime Minister, when he goes to London and shortly after that to the United States of America will utilize the opportunity of discussing this situation with the British Government and the American Government and that the difficulties created by this economic crisis will be smoothed over by the measures, or by the help or assistance that these two Governments will offer us in this connection.

Now, Sir, I would like to refer mainly to the effects of our devaluation and Pakistan's non-devaluation on our mutual or Inter-Dominion economy. I have tabled an amendment to that effect and so I would rather concentrate on this aspect of the matter.

5 P.M.

**Mr. Deputy-Speaker:** I have noted that it is five o'clock and that the honourable Member has already taken nine minutes. Anyhow, the House is not tired: so we can sit for six to seven minutes more and the honourable Member can finish his speech.

**Honourable Members:** Yes, yes.

**Mr. Deputy Speaker:** The House is anxious to hear the honourable Member.

**Shri H. V. Kamath:** I am at your service, Sir.

Before coming to the effects of the non-devaluation of the Pakistani rupee I might, *en passant*, refer to the motive that actuated the British Government to devalue her pound sterling, because only in the light of that can we assess the effects of our decision to devalue our own currency. British economy is mainly industrial and ours is chiefly agricultural. During the last twelve months or more British industrial output has risen, and therefore the British Government is anxious to find a market for her export. By devaluing her pound sterling she stands to gain, because her industrial products will find a better market in the dollar area. But ours being an agricultural country, our exports being mainly raw materials and some minerals like mica, manganese, etc., the quantity of these commodities that we can get together for export is very limited and inelastic. Therefore I fear that in the near future we will not be in a position to increase our exports so as to fetch even that much dollars which we have been getting so far, because after devaluation we will have to send out 30 per cent. or 40 per cent. more exports than what we have been doing so far if we are to earn the same amount of dollars that we used to do till now. I do not see any near prospect of this happening, and I feel that unless government expenditure is curtailed here, capital expenditure cut down, and imports are reduced, our exports cannot help us much. When exports cannot be increased our imports have got to be cut down. The only way out of the situation therefore is to curtail our imports and I would support Mr. Sidhva's plea that our food imports which are a drain on our resources must be curtailed and eliminated by next year. Otherwise I do not see whither our economy will tend.

In this connection the decision of Pakistan not to devalue her rupee takes on a new aspect. I hope that the inter-Dominion conference at governmental level which I understand is scheduled to meet in the near future will arrive at a new agreement about the purchase of commodities, their quantities and prices, all to be regulated as between India and Pakistan, though not in terms of the new rates of exchange. We shall have to fix the prices and fix the quantity and re-negotiate our old agreements. If that is done there will be some hope of restoring our inter-dominion economy. Otherwise I fear there may be breakdown in our inter-dominion trade and commerce. Because of Pakistan's non-devaluation of her currency if we try to grow more cotton or jute in our country, that will affect our grow more food campaign, which will recede to the background. It will hit again our foodcrops and we will have to import more food from outside. It will mean more imports from dollar areas and result in the wastage of dollar resources. I hope that this conference of Pakistan and India will settle this essential and vital issue in a manner satisfactory to both countries . . .

**Maulana Hasrat Mohani:** The Finance Minister has categorically refused and said that he would do nothing of the kind.

**Shri H. V. Kamath:** I will emphasise that: let us squarely face this issue at the conference.

There is only one more point. My friend Mr. Khandubhai Desai referred to the inflationary tendency that might worsen in the near future. The price level may rise and the cost of living may go up. I think that if this were to happen the suggestion made by the Congress President, Dr. Pattabhi Sitaramayya a few days ago must be seriously and earnestly considered by

Government, if we are to get out of the clutches of black-marketeers, hoarders and profiteers. If Government watches the situation, if their C.I.D. and intelligence staff are vigilant and active, they can right here in Delhi in Connaught Circus catch people red-handed profiteering and selling commodities at higher than controlled rates. One or two or a dozen people should be made an example of: they should be horse-whipped or flogged in public. There is no other way for our country. I wholeheartedly endorse the suggestion of Dr. Pattabhi Sitaramayya and I hope that the Government will, at this stage, when the crisis threatens to submerge us, take up this matter and mete out drastic punishment to such offenders against society. In this I hope Government will keep in touch with public opinion and public reactions in the country. I hope the Committee which they are going to appoint from among the members of this House will be a really effective and representative committee, and that it will not go the way that some other committees have gone in the past. Mr. Neogy can tell the House of a certain committee appointed which has never met so far, even after six months. I hope that this Committee will not function in that way and that it will be in constant touch with the Government on the one hand and the people on the other and bring about a closer co-operation between them than there has been.

Lastly I would only repeat or rather remind the House of what the Honourable Finance Minister said in his last budget speech earlier this year. He closed that fine speech with the words "I hope God's mercy will not forsake us in this hour of trial". I am sure the Finance Minister today is more inclined to repeat that prayer; and I only hope that though we may devalue our currency we will not devalue our standards, our dharma or our ethics or our capacity for hard work. Then the devaluation of the currency will not be a calamity, and all will yet be well with us. Let us put our trust in God and our nation and we shall tide over this crisis with advantage and profit to the people, and come out of it unscathed.

*The Assembly then adjourned till Half-Past Eleven of the Clock on Thursday, the 6th October, 1949.*