

28th February 1942

THE

LEGISLATIVE ASSEMBLY DEBATES

Official Report

Volume I, 1942

(11th February to 10th March, 1942)

FIFTEENTH SESSION

OF THE

FIFTH LEGISLATIVE ASSEMBLY,  
1942



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CORRIGENDA

In the Legislative Assembly Debates, Budget Session, 1942,—

- (1) Volume I, No. 1, dated the 11th February, 1942, page 31, line 20, for "Muslims" read "Muslim";
- (2) Volume I, No. 15, dated the 5th March, 1942, page 708, line 20 from the bottom, for "Suppression" read "Supersession";
- (3) Volume II, No. 5, dated the 17th March, 1942,—
  - (i) page 1207, line 4, delete the full stop after the word "statement"; and
  - (ii) page 1265, lines 5 and 22, for "The Honourable Sir Homi Modi" read "The Honourable Sir Homi Mody";
- (4) Volume II, No. 7, dated the 19th March, 1942, page 1357, line 15 from the bottom, for "The Economist news" read "The Economist news-";
- (5) Volume II, No. 8, dated the 20th March, 1942, page 1422, line 13 from the bottom, delete the second "that" at the end of the line;

- (6) Volume II, No. 9, dated the 23rd March, 1942,—
  - (i) page 1429, line 1, insert the word "is" after the word "blood"; and
  - (ii) page 1457, line 8 from the bottom, read "are" for the word "they";
- (7) Volume II, No. 11, dated the 25th March, 1942, page 1539, line 18 from the bottom, for the word "who" read "why";
- (8) Volume II, No. 13, dated the 1st April, 1942, page 1651, line 21, for the word "attacks" read "attack";
- (9) Volume II, No. 14, dated the 2nd April, 1942,—
  - (i) page 1688, line 17, for "It is given to C class" read "I said that A and B class";
  - (ii) page 1693, line 22, for "Syed Murtuza Sahib Bahadur" read "Maulvi Syed Murtuza Sahib Bahadur"; and
  - (iii) page 1729, line 19 and page 1730, line 9 for "Diwan Bahadur Sir A. Ramaswami Mudaliar" read "The Honourable Diwan Bahadur Sir A. Ramaswami Mudaliar".

# LEGISLATIVE ASSEMBLY.

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Mr. N. M. JOSHI, M.L.A.

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# LEGISLATIVE ASSEMBLY

Saturday, 28th February, 1942

The Assembly met in the Assembly Chamber of the Council House at Five of the Clock, Mr. President (The Honourable Sir Abdur Rahim) in the Chair.

## THE BUDGET FOR 1942-43

**The Honourable Sir Jeremy Raisman** (Finance Member): The year which has elapsed since I presented my last budget has been crowded with momentous happenings, as the struggle against armed aggression spread to every continent and developed the full proportions of a world war. The year has witnessed, both for good and for evil, the intensified pressure of the forces resulting directly from the war situation upon the economic structure of the country. The demands now being made upon her comprehend to the fullest possible extent the industrial possibilities of India. On a broad front—very much broader than some critics are willing to admit—a great advance has been made. I shall, in my speech today, only touch on the major features of that advance, for much has already been done to acquaint the people of India with the really striking achievements of Indian industry. The pressure upon the available industrial resources has been aggravated by the demands for Indian textile and other manufactured products from overseas areas which have been cut off from their former sources of supply. Inside India itself, the expansion of the national income due to the war is resulting in an increasing volume of demand which it is at times difficult to satisfy, in face of the inevitable diversion of capital resources and of trained labour towards the sustenance of the war effort.

2. So far as agriculture and raw materials are concerned, the situation can most easily be judged in the light of the course of prices. Over the greater part of the fiscal year, the price-level has been rising sharply and indeed the wide spread demand for the control of prices is a confirmation of the strain which increased purchasing power in the hands of consumers, on the one hand, and the diversion of resources to the war effort, on the other hand, is imposing upon the economy of India. The full utilisation of the country's productive powers which incidentally, are becoming increasingly diversified has its counterpart in growing incomes and increased opportunities for employment. That is the favourable aspect of the war on the economic side. The growing shortages, the necessity for doing without, the sacrifices which all classes of the community are now called upon to undergo—these, which are the inevitable consequences of the immense wastages which modern wars involve—are the less welcome aspects of the economic situation. On the whole, however, this country has been fortunate: the balance has so far been greatly to her advantage. I shall have occasion, at a later stage of my speech, to refer more fully to the technical aspects of the latest scheme for the repatriation of debt. But it is a remarkable fact that the demands now made on the economy of India are of a sufficient order of magnitude to make possible the retirement of virtually the whole of her external debt. The mere fact that this has been possible shows that our overseas trade, in spite of all the obstacles presented

[Sir Jeremy Raisman.]

by the shortage of shipping, has been amply maintained and indeed, the acceleration of the rearmament programme in America, even before Japan's treacherous attack drew that country into the war, enabled us largely to neutralize the effects of the freezing-orders which we, in common with the rest of the Empire and the United States, adopted as a form of economic pressure in the summer of last year.

3. It is of course obvious to everyone that the deterioration of the immediate position in the Eastern theatre of war must be a cause of anxiety, and that until it is rectified it will inevitably react on the economic situation. Certain of our old and new export markets are the scenes of actual hostilities : communications by sea have become more difficult, and the strain upon transport facilities within India itself, which is already very great, may become still more intensified. A temporary loss of confidence may check enterprise and may, to a certain extent, interfere with the high level of productivity previously attained. Nevertheless it requires no undue optimism to realize that the complete mobilization of the mighty resources of America and of the British Commonwealth, and the vast manpower of our heroic Chinese allies, must in time avail to hold the Japanese aggressor, and when the tide turns, as inevitably it will, there will be a powerful return of confidence which will again reinforce the tendencies making for a still further expansion of our economic activity.

#### FINANCIAL YEAR, 1940-41

4. I will now deal briefly with the results of the financial year 1940-41. In our revised estimates last February we expected to end the year with a deficit of Rs. 8,42 lakhs. The actual deficit turned out to be only Rs. 6,53 lakhs. For though expenditure, mainly on account of Defence, was Rs. 2,05 lakhs higher than we expected, revenue improved by no less than Rs. 3,94 lakhs. More than Rs. 2 crores of this was on account of the larger contribution made by the Railways to general revenues. The only other appreciable increases were in Central Excise Duties and Income-tax receipts. The divisible pool shared with the Provinces rose from Rs. 16,47 lakhs to Rs. 18,08 lakhs and the provincial share from Rs. 3,73 lakhs to Rs. 4,54 lakhs. In consequence of this there is a balance of Rs. 81 lakhs to be paid to the Provinces this March along with the amount due to them for the current year. As the amount provided for the reduction or avoidance of debt was Rs. 3 crores, the net addition to our indebtedness in 1940-41 was only of the order of Rs. 3½ crores.

#### FINANCIAL YEAR, 1941-42

5. I now turn to the current year 1941-42. Our revised estimates for revenue for this year show a net improvement of Rs. 16,62 lakhs. But against this our revised expenditure estimates show a net increase of Rs. 20,04 lakhs. The increase in expenditure is almost entirely on account of the Defence Services, the estimated cost of which has expanded from roughly Rs. 84 crores to Rs. 102 crores odd. Thus, while at the time of the budget we put the deficit on the current year at close on Rs. 14 crores we now expect this to increase to Rs. 17,27 lakhs.

#### *Revenue*

6. For the first nine months of the current year our receipts from Customs continued at a satisfactory level, but since the entry of Japan into the war and the consequent dislocation of shipping in the Pacific there has been a

marked drop. We still, however, expect that the total receipts for the year will reach our budget figure with about a crore to spare. Central Excise Duties have also come up to expectations, increased collections of sugar excise duty more than making up for the loss on petrol, and our revised estimate is Rs. 20 lakhs above the budget figure.

7. Collections of Income-tax and Corporation tax have continued to increase, so that our total revised estimate shows a further rise of Rs. 3 crores as compared with the budget. The actual receipts of Excess Profits Tax during the current year are put at no more than Rs. 8 crores out of an anticipated Rs. 11 crores. This is largely due to an over-estimate of the extent to which the increase of the rate of tax to 66½ per cent. would affect the current year's yield, the assessments actually made being almost wholly in respect of liabilities at the rate of 50 per cent. As I indicated the other day in reply to an Assembly question there has been in recent months a considerable improvement in the progress of assessments and these are now being made at the rate of over Rs. 1 crore of tax a month. The divisible pool of income-tax has gone up from Rs. 18,35 lakhs to Rs. 22,17 lakhs. In consequence the Provinces are expected to receive an additional Rs. 2 crores which with the arrears of Rs. 81 lakhs due from last year will bring the amount to be distributed to the Provinces this year up to the record figure of Rs. 7,39 lakhs.

8. As explained in my Budget Speech last year, only Rs. 45 lakhs out of the profits from the issue of our small coin is being taken to revenue and the balance to a Suspense Account. The Indian Mints have, however, carried out a number of coinage orders for other Governments and the fees received for this work and for foreign orders undertaken by the Currency Note Press have gone to swell the revenue shown under Currency and Mint. The main rise under this head is, however, on account of the increase in the surplus profits of the Reserve Bank paid over to Government, which turned out to be Rs. 2,47 lakhs as compared with our estimate of Rs. 1,36 lakhs. □

9. The working of the Posts and Telegraphs Department is now expected to result in a surplus of Rs. 1,79 lakhs more than was taken in the budget. With the growth of traffic in all branches, especially Telegraphs and Telephones, gross revenue has increased from Rs. 13,49 lakhs to Rs. 15,68 lakhs. At the same time the employment of extra staff and the payment of overtime and other allowances has caused expenditure to rise from Rs. 12,09 lakhs to Rs. 12,49 lakhs. Under the arrangement explained in my Budget Speech last year the whole of the surplus will be taken to general revenues without any liability for the payment of interest. As already explained in the speech of the Railway Member, the net contribution to be paid by the Railways this year is no less than Rs. 19,12 lakhs or nearly Rs. 9 crores more than was provided in the budget estimates.

### *Expenditure*

10. *Defence Services.*—Turning to the expenditure side of the current year, I deal first with the Defence Services. In my last Budget Speech I described in some detail the progress that had been made with the schemes for the modernisation and expansion of these Services. The objects are first to put India in possession of up-to-date naval, air and military forces, capable of undertaking the local defence of her own frontiers, and, secondly, to enable her to supply and maintain forces for employment overseas in what have been described as the outer bastions of India's defence. Schemes of this

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nature must, of course, be revised from time to time as the threats to particular aspects of India's security approach or recede with the developments in the war situation as a whole. Towards the close of 1940-41 the deterioration in the position in the Middle East, the over-running of the Balkans, and the emergence of sinister pro-Axis manifestations in Iraq, all pointed to the necessity for a further strengthening of our defences against attack from the West.

The prompt and effective action taken in Iraq and Syria eased the threat to India from this quarter for a brief space but Germany's sudden onslaught on Russia and determined drive towards the Caucasus revived it in an acute form. The recent successes of the Russians in the Ukraine and the reverses inflicted on the enemy in Libya lessened, for the time being at least, the danger from this quarter, but it would clearly be folly even now to ignore its existence and grave potentialities. Meanwhile, an even more serious menace from the Far East had been gradually looming up, culminating last December in war with Japan. Although this possibility had not been overlooked, the unfavourable course that this conflict has so far pursued and its rapid approach to within a relatively short distance of India's frontiers has created additional problems of the greatest urgency, which call for immediate action.

11. The defence schemes to which I referred last year were drawn up for the most part early in 1940 and in view of the increases since then in the magnitude and imminence of the threats to India's security, these schemes have undergone considerable modification and their cost has greatly increased. Before examining the financial implications of these changes I propose as last year to give the House some account of the expansions carried out and others at which we are aiming. For obvious reasons it is not possible to divulge in full the scope of our plans but what I have to say will, I hope, give some idea of the steadily growing magnitude of India's war effort.

12. In spite of the enormous requirements of a modern army and the far higher and more varied degree of training required of all ranks than was necessary 25 years ago, our armies are now more than twice as large as they were at the corresponding stage of the war of 1914—18. We now have in all over a million men under arms, twice as many as when I last addressed you. Our recruiting activities have led to a remarkable increase in the intake of recruits other than officers which has risen during the last 12 months from an average roughly of 20,000 per month to 50,000 per month. The arrangements for housing, feeding, clothing and transporting these large numbers of men have presented administrative problems of unprecedented magnitude. The recruitment of officers in India has not, on the whole, been as satisfactory as we could have wished. One reason put forward for the inadequacy of the response in this field has been that the terms offered to Indian Commissioned Officers are not sufficiently attractive. Improved rates of pay have recently been sanctioned for this class of officers. The institution of a Pre-Cadet Training College to supply certain deficiencies in training and education for young men who would otherwise make good officers may also be expected to improve the intake of officers required for our new armies.

13. All our old cavalry regiments have been mechanised and additional units of the new type are steadily being raised. Heavy and light armoured formations have been raised and others are forming. Concentrated efforts continue to be made to train intensively the thousands of officers required to instruct and lead our new units, and courses of instruction are modified whenever necessary so as to embody the lessons learned in actual operations

against the enemy. Last year I laid stress upon the extreme importance of adequate training and the fact that, next to the provision of arms and equipment, the pace of our expansion was conditioned by the quality of our training. During the last 12 months the various schools and other training institutions of the Defence Services have been greatly increased. Thus, the Staff College has increased its output by 100 per cent. since March 1941. The Fighting Vehicles School and the Artillery School have also doubled in size since that date. The Tactical School, Small Arms School and Army Signals School have all been greatly expanded. Many new training institutions have also come into being. An Air Landing School, for the training of parachute troops is now in full operation. A special centre for instruction in anti-aircraft and coast defence artillery has also been created. In addition to the Officers' Training Schools, where several thousand cadets and newly commissioned officers are learning the rudiments of their profession, a Higher War School has been established at the other end of the scale for the instruction, of senior officers.

14. The position in regard to equipment has, for one reason and another, never ceased to give rise to anxiety and it is only by dint of resourceful planning that we have been enabled to push on so fast with our expansion. I mentioned last year the arrangement whereby His Majesty's Government guaranteed to give us a substantial fixed percentage of the output of the United Kingdom in articles which we cannot make for ourselves. Although this proportion has recently been doubled and our anxieties on the score of equipment lessened they will not disappear for some time yet. The establishment of new factories and the expansion of existing factories in India for the production of ammunition, lethal weapons, explosives, and other articles required for war purposes, as a result of the Roper Mission schemes, will further ease the position in this respect as the new and expanded factories come into production.

15. The programme of expansion for the Royal Indian Navy which I indicated last year, is now materialising rapidly. The strength of officers and ratings has been approximately doubled. Two new sloops of the latest type, fast and well armed, are fully commissioned and have already seen service. Others are under construction in the United Kingdom. A large programme of building in connection with our Local Naval Defence requirements has been undertaken in India and some vessels have already been completed and commissioned. New and enlarged accommodation for the Gunnery School and Mechanical Training Establishment, has been provided during the past year.

The opening of a Junior Boys Training School with effect from the 1st February, 1942, calls for special mention. This School is designed as a feeder to the Boys Training Establishment at Manora on which the Royal Indian Navy largely relies for recruits to the ranks of seamen; engine room and other ratings. The new school is intended to give promising boys of about 15 years of age who would not otherwise acquire the educational qualifications prescribed for admission to the Boys Training Establishment, the general education needed to bring them up to the requisite standard. Both as a permanent addition to India's educational facilities and as a source of recruitment to the Royal Indian Navy the scheme is likely to prove of great benefit to India in years to come.

The work in H. M.'s Indian Dockyard or in private firms under Royal Indian Navy supervision on His Majesty's ships and on repairs, armament and protection of both British and Indian merchant ships, has steadily increased during the year. Additional dry docking facilities have also been provided by extending and reconditioning existing docks.

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16. The development of the Air Forces has proceeded as fast as the provision of equipment and skilled technical personnel permitted and much progress has been made during the year. Modern aircraft are now arriving in India and a substantial quantity of modern training equipment has been received. The rapid and continuous increase in the complexity and requirements of modern aircraft, the introduction of new types of squadrons, and the increases in the establishments of both personnel and machines for the various types, add greatly to the difficulties of organising our air defences. For the operation of the new makes of machines landing grounds have to be constructed to much higher standards than those accepted as suitable two years ago, while accommodation both for personnel and machines and other operational facilities, incidental to modern air defence are necessary on a far larger scale than was then envisaged. All these factors, I need hardly point out, add substantially to the cost of building up India's air defences. The formation and expansion of training institutions has gone ahead rapidly and there has been a recent increase in the civil repair and maintenance organisation. Under the scheme for the creation of a reserve of Indian Air Force Officers to which I alluded last year approximately 300 officers have been produced by the civil organisation and passed on to service training institutions, whence they should eventually be absorbed into active formations. The fullest use possible is being made of civil resources and the scheme inaugurated by the Director of Civil Aviation for pre-entry basic training for Indian Air Force mechanics is in full working order. Finally, the scheme for the assembly and manufacture of aeroplanes in India has made good progress. It is confidently hoped that the factory will complete its programme of fighter and bomber construction before the end of the present calendar year although considerable difficulties have been encountered in securing the release from America of the necessary materials, particularly since America entered the war. It has not yet been possible to secure from America all the materials needed for the programme of trainer aircraft and this may be delayed in consequence. In addition, the factory is doing valuable work in carrying out major repairs to aeroplanes of many types.

17. To understand the effect of these further developments in India's activities on our defence estimates it must be borne in mind that under the Financial Settlement with His Majesty's Government only such portion of the expansion of India's Defence Services as is related to India's local defence requirements is chargeable to Indian revenues. Thus, as I explained last year, India bears the cost of raising and training, and (to some extent) of equipping any additional forces raised and retained in this country in pursuance of her expansion schemes, while the whole cost, initial and recurring, of such additional forces as are sent overseas is recoverable from His Majesty's Government.

The amplification of these schemes and the putting into force of many other measures designed to improve India's coastal, air, and land defences, involve a large increase in India's share of the war bill. The basic factor underlying this increase is the great rise in the numbers of service personnel actually in India, either on the effective strength of units or undergoing training. Apart from the pay and allowances of these men, in itself a substantial item, the cost of feeding, accommodating, clothing and equipping them, constitutes a very heavy additional burden on Indian revenues. Another contributory factor is the enormous rise in the cost of providing ground and other operational facilities for the modernised squadrons required for India's local defence, to which I have already referred. Our total war commitments



estimated last year at Rs. 52 crores initial outlay and Rs. 19 crores annually recurring, have now on a rough computation risen to something like Rs. 100 crores initial and Rs. 40 crores recurring. During the current year the Indian portion of the initial and recurring costs arising out of these enlarged commitments will amount to roughly 54 crores, i.e., Rs. 18½ crores in excess of the amount provided for Indian war measures in the budget.

18. The details of the revised estimate of defence expenditure for 1941-42 amounting to Rs. 1,02,45 lakhs are as follows :

	Lakhs of rupees.
(1) Basic normal budget . . . . .	36,77
(2) Effect of rise in prices on (1) . . . . .	4,24
(3) India's war measures . . . . .	53,03
(4) Non-effective charges . . . . .	8,41
	1,02,45

The increase of 69 lakhs in item (2) over the corresponding budget figure is due to the rapid rise in the general level of prices of indigenous stores. The increase of 17,63 lakhs in item (3) is made up of the increase of Rs. 18½ crores just mentioned less Rs. 85 lakhs on account of India's share of contributions for defence purposes received from the Viceroy's War Purposes Fund. The estimate of non-effective charges remains unchanged pending conclusion of a settlement with His Majesty's Government regarding the allocation of such charges arising out of the war. The terms of this settlement are still under discussion.

It may be of interest to the House to know that the gross expenditure on defence services and supplies expected to be brought to account in India's books for the year 1941-42 amounts in all to Rs. 300 crores of which after India's share as shown above has been deducted the balance of nearly Rs. 200 crores is borne by His Majesty's Government. This latter figure does not include the value of equipment supplied and other services rendered by His Majesty's Government without charge.

#### *Civil Estimates*

19. Civil expenditure in the current year has increased by Rs. 1,72 lakhs. This is mainly due to the expansion of schemes and activities undertaken in connection with the war. The Department of Supply has made steady progress since I last gave the House an account of its activities. No substantial change has been made in its organisation, but for the duration of the war the Indian Stores Department, the Contracts Directorate, and the temporary officers employed on Purchase duties have been merged into a single Purchase Branch with the object of making the most economical use of the staff available. The Textiles Directorate has now been divided into two Directorates one of which has been located at Bombay to deal exclusively with Cotton Textiles. In the Directorate General of Supply, there has been continuous development. Close relations have been established with the Indian Cotton Textiles Industry and by co-operation between the Department and a Panel representing the Industry bulk purchases have been arranged on a very large scale. Something like 700 million yards of cotton textiles will be purchased during the year 1942-43. The Clothing Factories, multiplied ten-fold since the outbreak of war, are turning out more than eight million garments a month. A new Parachute Factory has been set up, and the first Indian-made Statichutes have passed their

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trials satisfactorily. The production of web equipment is being rapidly stepped up, and the output of leather goods has increased thirty-fold. Enormous quantities of timber are being extracted from the Indian forests, and a considerable sawing industry has been established which provides employment for a large number of people. Many new chemicals have been produced for the first time in India, and Indian sulphur will shortly be on the market.

20. The Directorate General of Munitions Production has launched satisfactorily a large number of new projects. In my last Budget Speech I referred to the possibilities of expanding India's output of war supplies on lines suggested by the Roger Mission whose recommendations were then under consideration. His Majesty's Government have since completed their examination of recommendations and as a result have approved 20 new projects involving in all a capital outlay estimated at roughly Rs. 12 crores, and these are now in various stages of execution. These projects involve the establishment of new factories and the expansion of old ones for the production in India of weapons, ammunition, steel, and other stores in urgent demand for war purposes, and should, before long, add materially to India's capacity for the production of munitions besides making her self-supporting in respect of certain items for the supply of which she had hitherto to rely on imports. The whole of the capital outlay on the erection and establishment of these factories is being borne by His Majesty's Government, but India will of course pay for such of the articles produced by the new factories as are utilised for purposes of India's local defence.

21. The load on trade and railway workshops has also been substantially increased. Apart from fabricated engineering stores, the tonnage of which is very considerable, the output includes a large range of military requirements from armoured fighting vehicles and small auxiliary naval craft down to camp kettles. Steam-driven marine engines are in production, and India has made her first electric transformers. These results have been achieved by the ready cooperation of industrial concerns throughout India and of the Railway Administrations. Some idea of the magnitude of the Department's activities is given by the fact that from the beginning of the war to the end of December 1941 the orders placed through the Department are valued at approximately Rs. 230 crores, not including the value of the manufactured goods produced in the Ordnance Factories. The additional expenditure on account of these expanded activities is expected to amount to Rs. 64 lakhs in the current year.

22. The decision of the United States of America early in 1941-42 to make available to the democratic powers the great resources of that country in equipment and stores of all kinds required for war purposes, on Lease-Lend terms, constituted one of the most significant and heartening developments of the war. In order to ensure that India participated to the fullest possible extent in these Lease-Lend facilities an Indian Purchasing Mission was created in the United States of America under the chairmanship of Sir Shanmukham Chetty, and it is due in large measure to his able exposition of India's case for Lease-Lend assistance that India has now been admitted to the benefits of Lease-Lend facilities, on the same terms as the United Kingdom itself and other members of the British Commonwealth of Nations. The indents placed for supplies on Lease-Lend terms up to the end of January, 1942, amounted in value to roughly Rs. 47 crores. How far, if at all, America's entry into the war may have the effect of postponing deliveries against these indents or of diverting them to other sources of supply, it is impossible to say, but assuming that no such retardation or diversion occurred, a very rough computation indicates that goods valued at Rs. 11

crores against these indents may arrive in India during 1941-42. The corresponding amount for 1942-43 is Rs. 34 crores. The bulk of the items included in these indents comprise stores required either for direct supply to the Defence Services in India or for supply in connection with contracts for the production of war-like stores. A relatively negligible portion of the demands relate to civil requirements, i.e., for A. R. P. stores, etc. In so far as stores received on Lease-Lend terms are utilised for the equipment of troops sent overseas or for other needs which are paid for by His Majesty's Government under the Financial Settlement the benefits and obligations conferred by Lease-Lend will of course be passed on to that Government. The value of such of the stores as are utilised for Indian purposes, whether by the Defence Services, Civil Departments of the Central Government, or Provincial Governments, will be debited to the budgets concerned and corresponding credits will for the time being be taken to a Suspense Head of Account. We have not yet been informed of the precise nature of the obligation that these Lease-Lend facilities will impose on the Governments making use of them and it is therefore considered prudent for the time being to budget and account for these stores in the same way as though they had been obtained by cash purchase until the precise manner in which the Lease-Lend liability will ultimately be liquidated becomes known. As I have already said, the great bulk of the amounts mentioned above relate to stores supplied for the Defence Services in India but the precise division of these amounts between His Majesty's Government and the Government of India cannot at this stage be determined.

23. There has also been an inevitable expansion in other spheres of Government administration to deal with special wartime problems. A Chief Controller of Imports has been appointed to regulate the Import Trade Control scheme: we have had to set up the Wheat Commissioner and the Controller of Coal Distribution and their staffs. An organisation has had to be created to administer the Petrol Rationing scheme and a Secretariat staff has been recruited for the (Post War) Reconstruction Committee. The estimates also include Rs. 1.41 lakhs which have to be provided for setting aside additional War Risks insurance premia on goods. These amounts are included in our revenue receipts and corresponding payments have to be made into the Fund created for this purpose. The amount to be paid this year in connection with A. R. P., mainly in grants to the Provinces, is estimated at Rs. 1.07 lakhs. Equipment of the new Mint which is now being constructed at Calcutta to enable us to meet the rising wartime demands for coin both for ourselves and from Allied Governments is costing Rs. 26 lakhs. A further Rs. 6 lakhs is on account of the larger output of coin from our existing mints, the profits from which go to increase our revenue. The net increase in the Civil estimates would have reached a larger figure but for a welcome reduction of Rs. 3.09 lakhs in our interest charges. This is mainly due to the saving in interest on the counterparts of our sterling loans for the period they were held in our Cash Balance Investment Account before they were sold, converted or cancelled. There are also certain special savings on the repatriation operations carried out last February. These will be counterbalanced in future years by the larger interest payable on the rupee loans raised to replace our cancelled sterling debt but in the current year there is an immediate reduction in our interest payments.

#### FINANCIAL YEAR, 1942-43

##### *Revenue*

24. I now come to the financial year 1942-43. Our total revenue estimates amount to Rs. 1,40,00 lakhs as compared with Rs. 1,29,62 lakhs in the revised

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estimates of this year. Against our current year's estimate of the yield from Customs duties of Rs. 36 crores, we have taken for 1942-43 Rs. 30 crores. This figure includes the estimated yield of Rs. 2 crores from the special additional import duty on raw cotton, which was recently imposed in order to finance the measures to be taken to relieve the short-staple cotton situation. The full effect on our foreign trade of the war in the Pacific has yet to be seen and on the information at present available we must prepare for a considerable drop in imports which may turn out to be even more serious than we have allowed for. Against this the yield from Corporation Tax and Income-tax together with the Central surcharge is expected to increase by over Rs. 3 crores, and the collections of Excess Profits Tax have been put at Rs. 20 crores as compared with Rs. 8 crores in the current year. On this basis the divisible pool of Income-tax will increase to Rs. 25.75 lakhs and on the assumption that the sum to be retained by the Centre from the Provincial moiety will be maintained at Rs. 4½ crores, the share of the Provinces next year is expected to reach the figure of Rs. 8.37 lakhs. I may observe that this is considerably more than the total sum which at the time of the Niemeyer Award the Provinces were expected to receive at the end of the ten-year devolution period or than ever appeared to be possible before the outbreak of war.

For next year the revenue of the Posts and Telegraphs Department is expected to be Rs. 15.77 lakhs and expenditure Rs. 12.54 lakhs. Telegraph and telephone traffic, the revenue from which has doubled in the last four years, is now being carried almost to capacity and the bulk of the Rs. 1.11 lakhs provided for capital works in 1942-43 is to be spent on increasing the capacity of the existing telephone and trunk systems and on opening new lines and exchanges.

#### *Expenditure*

25. *Defence Services*.—The Defence Budget for 1942-43 amounts to Rs. 1,33,00 lakhs made up as follows :

	Lakhs of rupees.
(1) Basic normal budget . . . . .	36,77
(2) Effect of rise in prices on (1) . . . . .	6,52
(3) India's war measures . . . . .	81,30
(4) Non-effective charges . . . . .	8,41
	1,33,00

The increase over the revised estimates in item (2) is based on the anticipated further rises in the general level of prices during 1942-43. The heavy increase against item (3) is due to the growth of our expansion and other war measures in the circumstances already explained. Of the total amounts shown, roughly Rs. 47 crores represent initial expenditure and Rs. 36 crores annual recurring expenditure. An allowance has also been made for an aggregate credit amounting to Rs. 1½ crores for the year from the Viceroy's War Purposes Fund. Here again, I would draw attention to the fact that the estimated amount of India's Defence expenditure is only a fraction (approximately one-fourth) of the gross Defence expenditure likely to be brought to account in India's books during 1942-43. In other words, the amount of expenditure on defence services and supplies that we expect to recover from His Majesty's Government during that year under the operation of the Financial Settlement exceeds the enormous total of Rs. 400 crores.

By far the greater part of this amount as also of the corresponding amount of Rs. 200 crores for the current year represents expenditure connected with the provision or maintenance of forces engaged in operations overseas that vitally concern India's security against external aggression. More than one half of the total amount relates to the acquisition and storage in India of stores of all kinds intended for the initial equipment or maintenance of such forces. A relatively small portion of these amounts consists of expenditure unconnected with the defence of India, such as, the value of equipment and stores supplied direct to the United Kingdom and expenditure on prisoners of war held in this country.

In addition His Majesty's Government have undertaken the supply to India without charge of large quantities of aeroplanes, vehicles, guns, and other equipment required in connexion with the expansion of India's Navy, Air Force and Army. The total value of such free supplies already made or expected to be received by the end of 1942-43 is roughly Rs. 60 crores.

#### *Civil Estimates*

26. Our civil expenditure estimates show increases amounting to Rs. 9,63 lakhs in all as compared with the current year's revised estimates. Though this is a large amount, particularly at a time when ordinary expenditure has to be restricted to the minimum, I will not take up the time of the House by going over the details which are furnished in full in the Explanatory Memorandum on the Budget. I will merely mention the chief components in order to indicate to what extent this extra expenditure is directly related to essential measures connected with the war. There is first of all the expenditure on Civil Defence for which Rs. 4 crores have to be provided. Under the new scheme of financial allocation of the cost of A. R. P. measures, which was drawn up after a conference between the Centre and the Provinces, each Provincial Government is in each financial year to bear the whole of its expenditure up to a specified amount which is to be fixed in a certain broad relation to the provincial revenue receipts. The amount over and above this initial slab of expenditure will be divided into further slabs, of which the first is to be shared 50/50 by the Central and the Provincial Governments, the next 75/25 and anything beyond that 87½/12½. This new allocation will not disturb the previous arrangement whereby the Central Government bear the whole of the non-recurring expenditure sanctioned by them prior to the 1st July, 1941, and the recurring expenditure sanctioned by them and incurred before that date. The scheme is designed to ensure that necessary A. R. P. measures are undertaken without delay and that the financial help given by the Centre should be determined in the light of the magnitude of the A. R. P. expenditure to be incurred by each Provincial Government and the capacity of the revenues of the Province. It also takes into account the additional resources which the Provinces are deriving from the larger distribution of income-tax. The amount of A. R. P. expenditure to be shared next year will of course depend to a great extent on future developments, so that our present estimate of the amounts to be paid out by the Centre can only be regarded as tentative.

27. The original Technical Training Scheme by which 15,000 men were to be trained for the technical branches of the Defence Services and Ordnance and Munitions factories has since been expanded to provide for the training of 48,000 men by the end of 1942-43. This is to cost Rs. 2 crores. A further expansion costing about Rs. 20 lakhs is also being undertaken to meet the needs of civil industry. Of these amounts Rs. 1,32 lakhs are expected to be spent next year.

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28. There is a special provision of Rs. 26 lakhs for expediting the Civil Aviation programme in addition to the annual subvention of Rs. 35 lakhs. Rs. 17 lakhs are required to complete the programme of the Karachi, Peshawar and Delhi Broadcasting Houses and the construction of the new high power transmitter for foreign broadcasts. The continued expansion of the Supply Department's activities is expected to require a further Rs. 48 lakhs over and above the amount provided this year. Then there are the sums to be transferred to special funds, such as War Risks Insurance premia, the proceeds from the enhanced import duty on raw cotton and the cess on exports of agricultural produce which amount to Rs. 3,24 lakhs, Rs. 2,00 lakhs and Rs. 18 lakhs respectively. These have to be provided in our expenditure estimates though in effect they are set off by corresponding receipts on the revenue side. A further large item is the increase of Rs. 1,75 lakhs in our Interest charges. This is due to the fact that the immediate savings which resulted from our Sterling Debt Repatriation operations will not recur next year and though there will be a large reduction in interest payable in England from the repayment of the 2½ per cent. and 3 per cent. non-terminable sterling loans, this will be offset by the additional interest to be paid in India on the Defence Loans and Treasury Bills raised to finance this repayment. Next year's provision for Interest will still, however, show a saving of Rs. 1,34 lakhs as compared with the budget for 1941-42.

29. I can now summarize the position for the coming year. The expenditure detailed in the Civil estimates comes to Rs. 54,07 lakhs and the provision for the Defence Services has been placed at Rs. 1,33,00 lakhs. Our total expenditure estimates thus amount to Rs. 1,87,07 lakhs. The total revenue, at the existing levels of taxation, is estimated at Rs. 1,40,00. We are thus left with a prospective deficit of Rs. 47,07 lakhs.

#### WAYS AND MEANS

30. At this stage I will as is usual give an account of our ways and means position, which naturally assumes a much greater importance in the scheme of wartime finance.

*Defence Loans.*—Since the Defence Loans were first issued in June, 1940 they have produced a total of Rs. 1,10,30 lakhs up to the end of January, 1942. The greater part of the amount subscribed this year has been in the form of investments in the three per cent. Second Defence Loan, 1949-52, which was on tap from the 1st February, 1941, and has only just been closed. The continued response to the Interest-free Defence Bonds has been most welcome. The sales of Defence Savings Certificates and Stamps have also brought in a steady if modest flow of subscriptions, the total of which now amounts to about Rs. 4,67 lakhs.

31. The aggregate of these sums is no doubt a respectable figure in relation to the normal scale of public borrowing in India. But in the circumstances of the present time it is manifest that a continuously increasing rate of saving is essential not only to finance our expanding war activities but to keep the economy of the country in a sound and healthy condition. Our own Defence expenditure has reached a scale of Rs. 40 lakhs a day and is continuing to grow. But there is a much larger expenditure on account of supplies and services to His Majesty's Government and other allied governments. For these we receive payment in sterling but have to disburse the equivalent amount in rupees within the country to those who have provided the goods and services. This creates a large increase in the purchasing power available in the hands

of people in the country. The whole of that purchasing power cannot possibly be utilised in a satisfactory and wholesome manner at the present time when so much of the productive power of the country must be directed to the war effort and when the purchase of desirable imports is necessarily subject to the most severe restrictions. In these circumstances it is of paramount importance that claims for consumers' goods should, as far as possible, be postponed; in other words, that the individual should refrain from intensive competition for goods of limited supply and should save his money for expenditure at a more suitable time. In this way he will not only provide a reserve for himself against more difficult times to come but he will assist in the prevention of those sudden rises in the price level which are a source of great hardship to so large a part of the community. These are familiar facts in any wartime economy, but they need to be brought home to those large numbers in India today who find themselves in possession of an enhanced spending power. The object of the National Savings campaign is to try and persuade people to follow this course in their own interest and that of the country. A conference of representatives from Provinces and Indian States was held last month to survey the progress made with this movement and to consider the further measures necessary to advance it. I can only repeat that nothing is more important than that people with surplus purchasing power in their hands should be taught at the present moment to save wherever possible rather than spend. I shall have more to say on this subject towards the end of my speech.

During the current year the outstanding balance of the three per cent. Bonds, 1941, amounting to Rs. 10½ crores was repaid, Rs. 8½ crores by conversion and the remainder in cash. Apart from the undated sterling loans, to which I shall refer later, the only loan we have the option of repaying next year is the five per cent. Loan, 1942-47, but of this the balance still outstanding is only Rs. 65 lakhs.

32. *Sterling Position.*—With the increased war demand for supplies from India, sterling has continued to accumulate in the Reserve Bank at a rate greatly in excess of the previous years' figures and our anticipations. Purchases by the Bank during the first ten months of the current year amounted to approximately £57 million. At the time of the budget we estimated a net refund by the Secretary of State of £26 million. Since then, however, the volume of recoverable war expenditure and purchases on behalf of His Majesty's Government and Allied Governments has increased continuously, and the net refunds for the year are now expected to aggregate £53 million after providing for the repayment of the 2½ per cent. and 3 per cent. undated sterling loans next month. For next year the net refunds by the Secretary of State are estimated at £164 million after allowing for the repayment of the remaining undated sterling loans and for the payment of £13 million for the purchase of the Bengal and North Western Railway and the Rohilkhand and Kumaon Railway.

33. *Repatriation of Sterling Debt.*—In my Budget Speech last year, I dealt at some length with our scheme for the repatriation of India's sterling debt and its financial implications. During the course of the current year, thanks to the cooperation of the Bank of England and the Reserve Bank, not only were we able to carry out this important and complex transaction smoothly, but we have also been able to adopt, with the assistance of His Majesty's Government, a similar scheme for the repatriation of the remaining non-terminable portion of our sterling debt. The total terminable stock acquired under the first scheme amounted to Rs. 97 crores leaving only some Rs. 15 crores outstanding as being outside the scope of the British and Indian Vesting Orders. The sterling paid out to those holders who were entitled to

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payment in sterling was £66.3 million, while of Rs. 14,56 lakhs dealt with under the Indian Order Rs. 13,30 lakhs were acquired in exchange for counterparts, the small remainder being paid for in cash. Including the market purchases that preceded the first compulsory acquisitions, the total sterling debt was reduced by £101 million and the annual interest payments in sterling by over £4 million. The continued accumulation of sterling with the Reserve Bank made it possible for us to enlist once more the assistance of His Majesty's Government and to announce towards the end of December last the second compulsory scheme of repatriation, and at the same time to give notice of redemption of the 3½ per cent. undated stock on the 5th January, 1943. The probable requirements of sterling for the 2½ per cent. and three per cent. stock are £70 million, and this the Reserve Bank will be able to find for us with the greatest ease. Another £70 million will be required during the course of next year for payments in connection with the 3½ per cent. stock and this amount will also be available without any strain on the Reserve Bank's sterling resources.

34. There has been criticism in some quarters that the open market purchases made from time to time before the first compulsory repatriation pushed up the prices against us and, therefore, made the scheme unduly expensive. This criticism is not valid because the bulk of our purchases were made during March to October, 1940 when security prices had slumped as a result of the international situation, and the prices paid were close to the minima fixed by the London Stock Exchange. Moreover, we had stopped making purchases for a couple of months before the date of the Vesting Orders. We did not resume them for the undated stock until we could pick up stock at reasonable prices again after the second week of December last. There is no evidence that our purchases were a factor of any recognisable significance in the fluctuations of the market prices from time to time, which were more or less parallel in the United Kingdom and in India.

35. Last year I gave the House a tentative outline of our plan of rupee finance for the first measure of repatriation. As I then explained, there are two stages: first, to acquire the sterling from the Reserve Bank and, secondly, to obtain rupees to pay for that sterling. Owing to the large sterling resources of the Reserve Bank the first operation presented no difficulty, and, as regards the second, I explained that it would obviously be impossible to attempt to borrow this immediately from the market, particularly in view of our defence borrowing requirements, and that in fact there was no need to hurry this process unduly. The procedure should be designed so as to avoid any immediate shock to the rupee security market and to fund these obligations gradually as the market was able to absorb them. To the extent to which these terminable loans were held by Indian investors, as their price was roughly at a parity with the price of similar Indian securities, it was possible to give them direct payment in the form of counterparts and the rupee finance of these of course presented no difficulty. As for the balance amounting to approximately 84 crores, it was taken over either by the Reserve Bank in the form of counterparts, or was met out of our balances, or financed by *ad hoc* treasury bills or ways and means advances from the Bank, the object being to provide both the Bank and Government with a portfolio which could be sold gradually to meet the market demand.

6. The first step taken in this direction was the cancellation of stock which, in our opinion, was in excess of the absorptive capacity of the market over the next few years and was not required for ensuring the marketability of such of the counterpart stock as was in the hands of the public. As a result



some Rs. 47 crores of stock including that taken over from the Reserve Bank was cancelled and a small proportion was converted into existing loans for which there is a fairly sustained demand from the market. The combined result of these operations was an increase of Rs. 92 crores in our rupee debt and of Rs. 3 crores in our rupee interest charges against a reduction in sterling debt by Rs. 135 crores and sterling interest by Rs. 5½ crores. As opportunity occurred during the year by arrangement with the Reserve Bank, *ad hoc* treasury bills taken up by the Bank in connection with the repatriation were gradually cancelled against the transfer of sterling from the Banking Department to the Issue Department. In the result, prior to the announcement of the second scheme of repatriation, the Reserve Bank held only Rs. 2,71 lakhs of *ad hoc* treasury bills. Meanwhile counterparts on Government's account were sold to the public as they required them, and by the end of December last, out of some Rs. 139 crores of rupee counterparts created since repatriation was first undertaken, Rs. 47½ crores had been cancelled, Rs. 51 crores were in the hands of the public, a little over Rs. 31 crores were held by the Reserve Bank and Rs. 9½ crores were held on Government account. As our outstanding of Treasury Bills actually decreased by Rs. 14 crores between the 1st March, 1941 (*i.e.*, prior to the repatriation payments) and the end of January 1942, we may conclude that the cash payments on account of the counterparts which were cancelled have ultimately been financed almost entirely from Defence Loan proceeds. We may, therefore, claim that the bulk of the floating debt incurred for the financing of the first instalment of repatriation has already been funded. We may also be reasonably confident that we shall not encounter any unusual difficulty in making satisfactory arrangements for the financing of the second instalment of repatriation due to be carried out in two stages—one in March, 1942 and the other in January, 1943.

37. In regard to the 3½ per cent. stock, Government have been criticised in some quarters for not extending to it the machinery of compulsory acquisition used in the case of the other stock. This criticism overlooks the fact that although compulsory acquisition can be justified as a contribution to the general war effort, it is still compulsion and cannot be lightly employed. In the case of the 3½ per cent. stock, which has been standing so near to par and which is redeemable on a year's notice, we could urge no sufficiently valid reason for His Majesty's Government to use their special war time powers to acquire it for us, even though the acquisition would have meant some acceleration of the release of sterling for investment in a more permanent form in British Defence Loans.

38. I pointed out last year that the real gain to the country from repatriation lies in the liquidation of external obligations which might prove an embarrassment in future and their replacement by internal debt. The method of finance employed, involving as it does payment to holders out of short-term obligations to be replaced gradually by funded loans, results in a certain temporary revenue gain. That, however, is only incidental, and if I mention a figure, I intend it to be a matter of only secondary interest to the House. We calculate that on the figures already given, the net saving to the revenue budget under interest would be of the order of Rs. 90 lakhs. In addition, to the extent to which the Reserve Bank is for the time being holding higher interest bearing rupee counterparts in its Issue Department instead of short-term sterling investment of lower yield, its profits will increase, and as ultimately the Bank's surplus profits are transferred to Government, Government gains thereby. I make no attempt to calculate precisely the size of this addition to Government revenue, but content myself with stating that it should be approximately of the order of Rs. 50 lakhs.

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39. A question is sometimes asked as to the effect of these large transactions on the Bank's sterling reserves. In point of fact, by the 1st August, 1941, the sterling reserve in the Issue Department had already been restored to the figure at the close of the previous year ending 30th June, 1940, in spite of large payments on account of repatriation. Immediately before the announcement of the second scheme, in spite of a very large increase in note liabilities, the Reserve Bank held gold and sterling securities accounting for 77½ per cent. of the note liabilities, and at the end of January, it was in a position to find all the sterling necessary for the 2½ per cent. and three per cent. undated stock and yet retain a cover in gold and sterling securities well above 40 per cent. Indeed in this respect the Bank might almost be said to possess an embarrassing plenitude.

40. *Treasury Bills.*—In the Budget we assumed a net decrease of Rs. 11½ crores in the value of Treasury Bill outstandings. Actually by the end of January 1942 the outstandings had been reduced from Rs. 69 crores to Rs. 45½ crores, that is, by Rs. 23½ crores. This improvement was due mainly to better Defence Loan receipts and sales of stock held by Government. Also, although the Reserve Bank have not found it necessary this year to take from us the rupee coin for which we had anticipated a credit of Rs. 5 crores, we have actually realised Rs. 10 crores from the sale of silver in India. Incidentally, the Bank will in the normal course have to take a further Rs. 5 crores of rupee coin from Government next April under Section 36 (2) of the Reserve Bank of India Act and we are accordingly assuming a credit of this amount next year.

We shall, however, have to find large sums to cover the repayment of the 2½ per cent. and the three per cent. undated sterling loans next month and we propose to meet this by creating additional treasury bills to the extent of Rs. 39 crores, the balance of the amount required being found either by the issue of stock to the Bank or from our own balances, supplemented if necessary by temporary ways and means advances.

41. *Post Office Cash Certificates and Savings Banks.*—The net discharge of Cash Certificates this year is not likely to vary appreciably from our original estimate of Rs. 6 crores; but, against the credit of Rs. 2 crores assumed in the budget, Savings Bank transactions are likely to result in a net outgo of Rs. 7 crores. Until recently there was a steady decrease in withdrawals but with the extension of hostilities in the Far East there has been a setback. The position will, it is hoped, improve before long and for next year we are estimating the net encashment of Cash Certificates at Rs. 5 crores and the net withdrawals of Savings Bank deposits at Rs. 2 crores.

#### NEW PROPOSALS.

42. I now address myself to my final task, which is to lay before the House the proposals of the Government for the treatment of the deficit of Rs. 47,07 lakhs, which, on the estimates we have made, is anticipated in the forthcoming financial year. But before I explain the measures which have been embodied in the Finance Bill, I have certain preliminary observations to make. From much that I have already said it is clear that the problem with which we are faced can no longer be handled from the limited aspect of the balancing of Government revenue and expenditure. In the Explanatory Memorandum to the Budget, we have exhibited this year certain indices and statistics of the kind to which the careful observer of economic trends is accustomed to refer when judging of the

economic situation of a country. I do not think that I should, in the course of this speech, embark on a theoretical examination of the precise significance which should be attached to these indices. I would rather confine myself to the statement of our own broad conclusion formed after taking into account the various relevant phenomena. It cannot be doubted that the factors which are at work today throughout the world and which affect practically every country, whether belligerent or neutral, are also operating in India. In so far as those tendencies give rise to anxiety, I think it is fair to say that India is not only not in the forefront of the countries exposed to major economic perils but that she is indeed somewhat further removed from the point at which the more drastic forms of action would be called for. Nevertheless it is also beyond dispute that a stage has been reached at which, in addition to the ordinary process of taxation, it is the clear duty of the Government to make a beginning with measures of a kind which will assist in relieving the pressure of the enhanced volume of purchasing power on the inevitably limited supplies of goods and services which are available for private consumption at the present time. It is in the light of this broad conclusion that the Budget proposals have been framed. I will only add that, in judging the efficacy of the initial steps we are now taking, account must be taken of secondary as well as of primary factors. It must be borne in mind throughout that when a certain amount of purchasing power is withdrawn from the public, the total volume of spending affected is greater than the initial sum withdrawn, since those to whom the original spenders would normally have transferred purchasing power, will now also be deprived of the opportunity of spending, and so on in a widening circle.

43. With these preliminary observations I now proceed to explain our proposals in the sphere of direct taxation. I will deal in the first place with the provisions relating to incomes of from Rs. 1,000 to Rs. 2,000. These are in the first instance made liable to tax at six pies in the rupee on the excess over the first Rs. 750 of total income. This liability can, however, be completely discharged and no tax will be leviable if the assessee exercises the option of depositing a prescribed sum in a Savings Bank Account. The prescribed amount is Re. 1 for every Rs. 25 by which his total income exceeds Rs. 750, and is, therefore, approximately  $1\frac{1}{4}$  times the amount of tax to which he would otherwise be liable. Thus, on an income of Rs. 1,250 the tax would be Rs. 15-10-0 and the optional savings bank deposit would be Rs. 20. The corresponding figures for an income of Rs. 1,750 are tax Rs. 31-4-0, optional savings bank deposit Rs. 40. It is intended that these amounts should be deposited in the Post Office Defence Savings Bank from which sums cannot ordinarily be withdrawn till one year after the end of the war and on which interest is payable at the rate of  $2\frac{1}{2}$  per cent per annum. It will be seen that this is in its essence a scheme of saving rather than of taxation, and it appears to us the most suitable way in which the problem which I outlined above can be tackled in the case of those persons whose incomes fall below the minimum, which has hitherto been liable to income-tax.

44. The next feature of our proposals relates to the central surcharge on incomes exceeding Rs. 2,000. We have hitherto proceeded by the application of a flat percentage surcharge on the basic rate of income-tax and super-tax throughout the whole range of income. The limitations

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of this procedure will be apparent when it is remembered that the basic tax progresses from three quarters of an anna in the rupee at one end to nine and a half annas in the rupee at the other. The scope for feasible enhancement of the latter rate of tax in a time of national emergency is clearly much more restricted in terms of a flat percentage than the increases which are feasible in the lower reaches of the scale. The basic scales of tax in India have, since 1939, been highly progressive and the rate of progression has been further steepened by the application of the percentage surcharge. The income-tax surcharge which has been proposed in the Finance Bill runs from six pies in the rupee on the slab of taxable income between Rs. 1,500 and Rs. 5,000, to nine pies in the rupee on the next Rs. 5,000, 1 anna and 2 pies in the rupee on the next Rs. 5,000, and 1 anna and 3 pies in the rupee on the balance of total income. The last named surcharge is, of course, equivalent to a 50 per cent surcharge. Similarly, the surcharge on the rates of super-tax are equivalent to a 50 per cent surcharge and at the same time Corporation tax is raised to  $1\frac{1}{2}$  annas in the rupee. While for the reasons I have explained the rates of surcharge on the first slabs of taxable income are somewhat higher than 50 per cent. there is a provision which mitigates their incidence in the case of incomes not exceeding Rs. 6,000. By this provision a portion of the tax equal to a half per cent of the assessee's total income will be funded for his benefit and repaid to him after the end of the war. In order that the House may more easily understand the incidence of the taxes that will now be levied on incomes throughout the scale I have included in the Explanatory Memorandum on the Budget a table showing the percentage of his total income which the assessee will be required to contribute. It will be seen that that incidence proceeds in a fairly even progression from less than two per cent at one end of the scale to 85 per cent at the other end of the scale on an income of 30 lakhs a year.

45. As regards the Excess Profits Tax, it is proposed to retain the existing rate of  $66\frac{2}{3}$  per cent to be levied on the profits of a further period of one year. Here also, however, we have introduced a new feature. We have been impressed with the growing evidence of the extent to which this tax militates at certain stages against the incentive to the most economical and efficient administration of the business affected. We also feel that there is great force in the argument for the supreme importance of building up a reserve for the rehabilitation and re-equipment of national industries after the war. Finally, there is here also a strong case for immobilising, during the period of the war, as much as possible of the excess profits earned and preventing postponable private expenditure from exerting an undesirable influence on the price level. To assist in securing these objects we are prepared to contribute an amount up to but not exceeding  $1/10$ th of the net excess profits tax ultimately paid at the rate of  $66\frac{2}{3}$  per cent., provided that the assessee deposits a sum equal to double this amount. The contribution thus placed in reserve by the assessee will be repayable within 12 months of the end of the war and will in the meantime earn simple interest at the rate of two per cent per annum. The portion contributed by the Government will also be paid out after the war at such time and subject to such conditions as may hereafter be determined. Advice on the formulation of these conditions will be sought from the Post-War Reconstruction

Committee. The Government contribution will, together with the interest on the assessee's deposit, be a taxable receipt of the year in which it is repaid.

This completes our proposals for direct taxation. The net addition to revenue, excluding repayable deposits and refundable elements which are to be treated as borrowings, is estimated at Rs. 590 lakhs.

46. I turn now to the sphere of indirect taxation. Here our main proposal is to levy during the forthcoming financial year an emergency surcharge over the whole field of customs import duties equal to one-fifth of those duties. The only exceptions will be the duty on raw cotton, which has just been enhanced for a special purpose, and the duty on motor spirit, the excise on which will be increased by three annas a gallon with a resultant automatic increase of a like amount in the import duty. There are also a few unimportant imports from Burma on which, by the operation of the trade agreement concluded with that country last year, no increase is permissible. The duty on imported salt will also continue at the same rate as that at present levied on indigenous salt. The excise duties on kerosene and on silver will be equated to the import duties now leviable. These proposals will, by virtue of a declaration under the Provisional Collection of Taxes Act, come into effect at once.

47. The levy of an overall surcharge on the schedule of import tariffs, comprising all revenue and protective duties, is a measure which in normal times is fraught with the most serious disadvantages, not the least of which is that it tends to defeat the very object, namely, increase of revenue, which it seeks to achieve. I have had sufficient experience of the operation of this factor to be in no danger of underestimating its effect. But at the present time, when our import trade is already subject to a far-reaching scheme of restriction and control, we are satisfied that the additional effect of the proposed increase in duties will not be serious. Customs duties have for a long time been the main pillar of the Central revenues of India, and it is exceedingly difficult to repair a heavy shortfall in this form of revenue by resort to any alternative source. We estimate the additional revenue from the measures I have just described at Rs. 570 lakhs. I need hardly say that at the present time estimates of this kind cannot possibly pretend to any high degree of accuracy, and may easily be falsified by the course of world events.

48. We propose finally to make certain increases in our posts and telegraphs rates, which are estimated to yield an addition of approximately Rs. one crore. The main changes are an increase in the ordinary letter rate from  $1\frac{1}{2}$  annas to  $1\frac{1}{2}$  annas, the postcard rate remaining unchanged; and an increase in the minimum rate for an ordinary telegram, which is at present ten annas including the surcharge, to 12 annas. The minimum rate for express telegrams will be similarly increased from Rs. 1-4-0 to Rs. 1-8-0. There will also be increases in telephone rentals and the surcharge on trunk call fees will be raised from 10 per cent to 20 per cent.

49. The total additional revenue from all these proposals is estimated at Rs. 12 crores, leaving a deficit of Rs. 35,07 lakhs to be covered by our borrowing programme. This would in normal times rightly be regarded as a very formidable addition to the public debt. At the present time it must, of course, be viewed against the background of India's war

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effort, of the undoubted increase in the national income resulting from the intensive development of India's resources, and above all of the tremendous accession of strength which results from the conversion of external to internal debt.

From this general picture I consider that all those who entertain far-reaching hopes for the future of this country may draw great comfort and encouragement. It is also my belief that, come what may, India will again be seen to possess vast reserves of faith and fortitude, that her people will prove themselves worthy members of that great brotherhood which includes, besides the British Commonwealth of Nations and the mighty American confederation, the undaunted millions of China and of Russia, and that hand in hand with them she will move forward to the victorious dawn of a new world.

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### THE INDIAN FINANCE BILL.

**The Honourable Sir Jeremy Raisman** (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1942.

**Mr. President** (The Honourable Sir Abdur Rahim): The question is:

"That leave be granted to introduce the Indian Finance Bill, 1942."

The motion was adopted.

**The Honourable Sir Jeremy Raisman**: Sir, I introduce the Bill.

The Assembly then adjourned till Eleven of the Clock on Wednesday, the 4th March, 1942.