

Thursday, 5th March, 1942

# COUNCIL OF STATE DEBATES

(OFFICIAL REPORT)

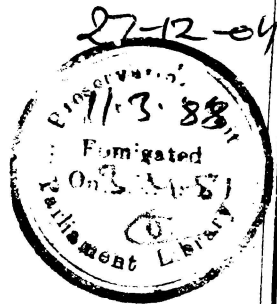
VOLUME I, 1942

*(18th February to 2nd April, 1942)*

## ELEVENTH SESSION

OF THE

# FOURTH COUNCIL OF STATE, 1942



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# COUNCIL OF STATE.

*Thursday, 5th March, 1942.*

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

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## STATEMENTS, ETC., LAID ON THE TABLE.

THE HONOURABLE MR. E. CONRAN-SMITH (Home Secretary): Sir, I lay on the table a copy of the Declaration of Exemption under section 6 of the Registration of Foreigners Act, 1939, as published with the notification of the Government of India in the Home Department No. 1/27/41-Political (E), dated the 18th February, 1942.

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### *Declaration of Exemption.*

*No. 1/27/41-Political (E), dated the 18th February, 1942.*—In exercise of the powers conferred by section 6 of the Registration of Foreigners Act, 1939 (XVI of 1939), the Central Government is pleased to declare that the provisions of the Registration of Foreigners Rules, 1939, except rule 8 and such of the provisions of rules 4, 14, 15 and 16 as apply to, in relation to, passengers and visitors who are not foreigners, shall not apply to, or in relation to, Lt.-Col. Yih Teh-Ming and Doctor Ho, so long as they hold the posts of Chinese Resident Military Officer and Staff Officer, respectively.

V. SHANKAR,

*Deputy Secretary to the Government of India.*

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THE HONOURABLE MR. S. N. ROY (Communications Secretary): Sir, I lay on the table a copy of the notification by the Chief Commissioner of Coorg, No. A-3-1451/41, dated the 4th February, 1942, relating to rules framed under the Motor Vehicles Act, 1939.

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## THE CHIEF COMMISSIONER OF COORG.

### NOTIFICATION.

*No. A-3-1451/41, dated the 4th February, 1942.*—In exercise of the powers conferred by section 70 of the Motor Vehicles Act, 1939 (Act IV of 1939), and the notification of the Government of India, Department of Communications No. R. 60, dated the 28th June, 1939, the Chief Commissioner is pleased to make the following amendment to the Coorg Motor Vehicles Rules, 1940, issued with his notification No. R.F. 43/121-39, dated the 26th March, 1940.

### *Amendment.*

In sub-rule (1) of rule 145 for the figures and words "225 pounds in weight unladen", substitute the figures and words "1,100 pounds in weight laden".

J. W. PRITCHARD,

*Chief Commissioner.*

## GENERAL DISCUSSION OF THE GENERAL BUDGET, 1942-43.

**THE HONOURABLE THE PRESIDENT:** Honourable Members, perhaps you will have already noticed that I have today dispensed with the question hour as I was anxious to give Honourable Members the fullest opportunity of having their say this morning. However, I would point out that I hope the Leaders of Parties will be as brief as possible because I propose to call upon Sir Jeremy Raisman if he is in the House at half past four to answer the debate.

**THE HONOURABLE SIR A. P. PATRO** (Nominated Non-Official): Sir, the speeches of the Honourable the Finance Member and the Honourable the Finance Secretary reflect the practical advice which the Prime Minister had given in the House of Commons. ; It was only the other day he said——

**THE HONOURABLE THE PRESIDENT:** Are you reading from the speeches made in the other House? I cannot allow that; it is against the rules.

**THE HONOURABLE SIR A. P. PATRO:** I am not reading the speech. Mr. Churchill in advising the House of Commons said that in this difficult period we have to follow a new method and a new policy and not slavishly carry out what was done before. The Honourable the Finance Member, following that advice, has also said that the Budget proposals during this terrible time have to be looked into not from the point of balancing the Budget, namely, the revenue and expenditure, but against the background of the war. Therefore, in discussing the Budget proposals we have to look at it not from the orthodox budget point of view and therefore should not be surprised at the deficit of Rs. 40·07 crores, because the expenditure on Defence services is such that a deficit is inevitable. Now the ways and means of covering this deficit have been very carefully considered and proposals for new taxation direct and indirect to the extent of Rs. 12 crores have been made, while the balance has to be obtained by loans. I have been pleading all these years that the future should not be mortgaged to relieve the present. That is a sound policy and it has been adopted in the Budget, namely, the covering of the Budget both by present taxation and by loans.

**THE HONOURABLE THE PRESIDENT:** But you know that this is essentially a war Budget?

**THE HONOURABLE SIR A. P. PATRO:** Yes, Sir. This Budget being essentially a war Budget it has to be understood that the circumstances are special and they have to be met in a way entirely different from the ordinary. Now, in the matter of this taxation the policy of the Finance Member is again sound, because he has brought in what is called the compulsory saving system, by lowering the income-tax limit from two to one thousand rupees and by putting the tax thus deducted from these lower earning people into a savings bank. Therefore it is not taxation in the ordinary sense. It is a compulsory saving for these people and it will be good for them to have this money saved and refunded to them after the war. Therefore I do not agree with those who cry down the imposition of this kind of compulsory saving upon this small income class. It is said elsewhere that it is necessary that every one should be taxed to such an extent as to realise the extent of the war expenditure we have to meet. Wiseacres may theorize sitting under electric fans about taxing

the hard-earned money of the smaller people, but it does bring home to them the difficulties of the time. The Finance Member after considering all the sources of taxation decided that this was a feasible one and it could be tapped. Again, it is suggested that there being so much expenditure and capital involved in industry and the profits being so enormous, industries should be further taxed. But in arguing like this it is forgotten that about 20 crores of rupees were realised by the taxation of industries last year and the same source cannot be taxed again and again. Industries are practically in a very bad way today. I understand that 20 mills have been closed in Ahmednagar and there is consequent unemployment, so that it is not only the capitalist who have suffered but the labourers also. Of course, it is not for the present Budget to deal with this question, but the public and the House have to remember that industries cannot be further taxed in the present circumstances. If the lowering of the income liable for assessment as a saving, there is no harm in inducing people to save money and invest it in savings banks. Industries cannot be taxed further. You cannot kill the goose that lays the eggs altogether. Therefore the background for the whole policy of the Budget is that of war expenditure.

Industrial possibilities have been very well disclosed. If we had known the possibilities of industrial development before and if steps had been taken as are now being taken, then there would not have been this economic disturbance and financial dislocation of the whole of the country. The position is that today we have started war industries all over, the manufacture of munitions, the manufacture of arms, the manufacture of locomotive engines, and the manufacture of so many other necessities of war which have hitherto been imported into India at great expense. Therefore there was a great drain hitherto from India to England. Now it has altogether been minimised or stopped by starting such industries for which we were dependent hitherto on imports. Indian firms, Indian agencies, have taken up the responsibility for supplying war necessities. The plea that was hitherto urged was that materials were not available and had to be indented for from other countries and therefore no new industries could be developed here. That this is a wrong plea, that this is not a tenable plea, has been proved by the way in which the Roger Commission has made its recommendations.

**THE HONOURABLE SIR SHANTIDAS ASKURAN :** Have you seen the Roger Commission's Report ?

**THE HONOURABLE SIR A. P. PATRO :** We have read references to it. The reference made to the Report by the Honourable the Finance Member shows that the Roger Commission has recommended the starting of 20 new industries and 20 new factories to turn out material very valuable to the war and when they are stabilised they will be very useful and will be a permanent asset to the industrial development of the country after the war. Therefore the Roger Commission is a new feature which we are to keep in view. But unfortunately though it was one and a half or two years ago, steps have been taken very late to set up these factories. In addition to this industrial manufactures are going on in trade as well as railway workshops. These have been producing machinery and guns of a very high quality for which hitherto we have been dependent on foreign countries. These things are turned out by experts with material available in India and these have been to a large extent on a permanent basis. It is not that these have been started for the war and they will be abandoned after the war. They will be permanent features of the country's industrial development. There are still many other things which could have been done if the Government had taken steps earlier or when the

[Sir A. P. Patro.]

war began. But there was always the confidence that India may not be required to join in the war and therefore India need not develop things here. That India should be made the arsenal for the whole of the East was urged from time to time but it fell on deaf ears and the British Government never cared to strengthen the position in India. In the settlement which has been entered into with Great Britain after considerable discussion we find that the Imperial exchequer pays to India for the supply of all munitions, all equipment necessary for the army outside the borders of India and it is only for local purposes that India is to pay ; otherwise all the other expenditure are to be the charges of the Imperial Government. Therefore the Budget expects that there would be a payment of Rs. 400 crores for next year and Rs. 200 crores for the current year from the Imperial Government. This vast sum is to replenish us to strengthen the finances of India which we should never forget. In addition to these the Imperial Government gives us aeroplanes and other war supply without cost. Therefore the large amount of assistance that we receive from the British Government is a real factor in the financial improvement of India. If today we are not in the same boat with many other continental countries it is because of this assistance which we have from the British Government.

Sir, it was said the other day by the Chief Commissioner for Railways and by the Honourable the Railway Member that axles, wheels and other necessities which were not hitherto available in this country are manufactured here by a plant which has been set up by an Indian firm. Why was it not done hitherto ? Necessity knows no law in war time. It is war time which pressed them to search for sources from which they could develop ; otherwise they would never have been able to produce these things here. Then the other day it was said that steel of the proper quality was not available in India and surgical instruments had to be imported from other countries, even from Germany. Dr. Parthasarathi has been able to find from his personal research that surgical instruments could be manufactured from Tata's steel in India and Tatas are able now to manufacture surgical instruments. There is another important material necessary for aeroplanes, that is, magnesium. What they do in Germany and Japan is they lay the pipe line five miles into the sea, draw the water and then manufacture magnesium from out of sea water. On the other hand, look at the vast wealth available in India. In Salem district it was discovered that there are large deposits of magnesium which if properly developed would be available for purposes of the war, for aeroplanes, without being dependent on other countries. Even now with war necessity and war danger, the apathy of those in charge of these matters seems to me to be most astounding. It is extremely foolish that the Government should not be able to open its eyes to see that this is the period wherein they could develop these industries which would be helpful not only in the present war purposes but could help them in the future. Attempts should be made now immediately because after all we have got experts and scientists available in the country itself who can work as well as some of the German or British experts. Therefore it seems to me that this neglect is not at all pardonable.

Then referring to the civil estimates there are four or five points which require careful attention. The first scheme that is propounded and that is again repeated this year in the Budget is the repatriation scheme. It is really a beneficial scheme, a scheme which benefits India from the time when complete repatriation has been made and India will be free from external debt or sterling loan and the loan will be created in India. We have been talking

Sir, for all these years about the drain on India. The interest on capital invested in India is carried away and India's money is carried to other countries but here an opportunity has been created for free India. India hereafter will be not subject to that kind of drain which we have so often repeated from various platforms but here this repatriation scheme completely frees India from external debt though it creates a debt in India because hereafter the proceeds of the interest will remain in India. Now that scheme will liquidate, as I said, all external obligations which might prove an embarrassment in the future. Those obligations are replaced by internal debt.

The second feature of the Budget which I wish to place before this House is this. As I referred to briefly, the financial settlement with Great Britain really enables us in India to be able to have a proper Budget and to receive assistance which saves us from inflation of the currency, because the Reserve Bank will have sufficient reserve now of the sterling as well as of silver so that we need not have any recourse to inflation as has resulted in all other countries affected by the war.

The third feature I venture to place before you is the Roger Commission. The Roger Commission recommended the settling up of 20 new factories. These factories have been established and, as I said, have been turning out materials, engines and machines which are very useful for the war and for the future, but the reassuring prospect of the Budget is the extension of the Lease and Lend scheme which is of great help to India at present when India has placed an order worth about Rs. 47 crores of which it is said materials worth Rs. 12 crores would be coming to India before the end of the year.

**THE HONOURABLE MR. HOSSAIN IMAM :** Has any part of these materials worth Rs. 12 crores come to India ?

**THE HONOURABLE SIR A. P. PATRO :** Wait and see. Don't be impatient.

**THE HONOURABLE MR. HOSSAIN IMAM :** We are in the twelfth month.

**THE HONOURABLE THE PRESIDENT :** Order, order.

**THE HONOURABLE SIR A. P. PATRO :** Therefore these features of the Budget are such that it is necessary to have a proper planning.

The next feature of the Budget, I beg to represent is this. By a system of planning considerable expansion of industries has been brought about. One outstanding feature which will be welcomed by all in the country is the manufacture of aeroplanes. For the first time in India we have plant and machinery established by which aeroplanes will be manufactured in India and very shortly India's first aeroplane factory will be working from the end of this year for fighter and bomber planes.

Therefore, Sir, these features of the Budget are very commendable ones and these no doubt raise the hope that in close co-operation with Great Britain India may be able to achieve that industrial development which we all advocate very much. The war is an evil thing, but out of evil cometh good. If out of this war the British Government has been forced, compelled to have recourse to and find out the sources from which they could develop the industries of the country, if this were not so they would not have been able to do anything at all. All the time they have been singing, there has been opposition from the

[Sir A. P. Patro.]

bureaucrats, opposition from the British Government. Hitherto they have been saying that no materials are available in India, India is such a barren country that only we have to import things from outside, otherwise there would be no good result in India, nothing is possible and that everything must be imported from outside. That was the mentality which has influenced the Government of this country and now war is an evil, but war has driven the people to see the necessity of developing industries of this country to such an extent that hereafter there will be plants and machines which will be more or less permanent establishments in the country.

Sir, it is the economic development and not so much the political development which India needs. Political development may follow in my view of the matter, but the economic and agricultural development of the country is more important than the political development. If you place a few people in power that is not sufficient. Power will not come in until you take the masses with you. You take the people with you and you educate the people to a consciousness of their rights and liabilities. Until then, Sir, there is no hope for India. It is economic and agricultural development which is most needed for India and therefore this is an opportunity which affords the Government to be able to put their energies and their wisdom into the development of industrial, agricultural and economic condition of the country. I am sure the Budget gives an indication of it. If this is the spirit which prevails, as it does in the Budget, I am sure this achievement and development will be possible.

THE HONOURABLE SIR SHANTIDAS ASKURAN (Bombay : Non-Muhammadan) : Sir, I have more than once pleaded and urged the growth and starting of new industries. As I am glad, my Honourable friend Sir A. P. Patro has taken that brief and I am sure that other Members in this House will speak on this I will not touch on this point.

The Finance Member deserves our congratulations for presenting a Budget which embodies the latest methods of financing a war and for taking far-reaching steps to avoid the dangers of inflation. Before going into details, however, I should like to take a rapid review of India's war effort as reflected in our financial burdens. For the purpose of comparison, I shall start from the year 1939-40, though this year was partly affected by the war. Our total expenditure has increased from Rs. 89 crores to Rs. 179 crores or will double itself in the coming year. The expenditure on Defence services alone has increased from Rs. 50 crores to Rs. 133 crores or by Rs. 83 crores which means 166 per cent. In order to finance this huge expenditure we had to introduce big changes in our tax structure. This effort has become particularly difficult as our main source of revenue "Customs" has fallen because of the inevitable fall in imports due to the war. From Rs. 46 crores in 1939-40, we now expect only Rs. 35 crores in the coming year from this source, and even this may prove an over-estimate. Our main reliance has been on taxes on income which by successive increases will have risen from Rs. 17 crores to Rs. 56 crores in the coming year or by Rs. 39 crores in all. Our second main source of relief has been the commercial services which show a rise of Rs. 19 crores, from Rs. 5 crores which they contributed in 1939-40, they are now estimated to give Rs. 24 crores in the coming year. Central excise has also added another Rs. 6 crores, having risen from Rs. 7 to 13 crores in this period. In spite of this heavy additional sources of revenue amounting to Rs. 64 crores, we have provided for large deficits, which amount to Rs. 72 crores for the war period.

Sir, for the limited resources of this country, this is a great performance. I venture to say, however, that the people of this country would welcome even larger financial burdens most willingly provided they were convinced (a) that this expenditure was most economically incurred for building up efficient defence services for the country and (b) that the fruits of this expenditure will be available in the form of active defence of this country, when necessary. Sir, the reluctance, if any, to pay more taxes or to welcome more burdens is due to the fact that the people at large have no clear idea regarding the defence arrangements of the country, and one cannot blame them if whatever confidence they had in the security of life and property has been rudely shaken by the events of the last few months, and by the ever approaching march of the enemy to the frontiers of this country. We have been asked from the highest quarters not to be nervous and not to be panicky in the face of danger. It is very well to give this advice. The people of this country having been disarmed now for two centuries have not seen the sight of blood and are naturally horrified at the prospect of war at their doors. They have been repeatedly assured of peace and security by their being in the Empire, inasmuch as the British Navy, Army and Air Force would always be available to defend their shores and frontiers. Sir, it is difficult for the average man in this country to reconcile these assurances with recent facts of what has happened from Singapore to Rangoon. Besides, when they hear of the woes of responsible people in Australia at their inability to defend themselves adequately without timely aid, the people of this country are naturally wondering at the prospect in store for them.

Sir, if the panic which does prevail in the country must be removed what is necessary and imperative is in the first place to create immediately confidence among the people that their lives and property will be protected and that the British Navy and Air Force will be there at the right time in adequate strength. This confidence cannot be inspired any longer by the statements of the highest British authorities, be he the Governor General or the Commander-in-Chief, the Secretary of State or even the Prime Minister, that confidence can be inspired only if the trusted leaders of the people themselves are in a position, with inner knowledge and with the power to help, to tell the people not to lose heart, but to face the danger with calmness. Sir, if this change in the outlook and policy of the Government which is urgently called for was realised financial burdens even greater than those imposed in this Budget will be cheerfully borne. I do hope that in spite of delays, the decision of His Majesty's Government in this connection which is eagerly awaited will show that British statesmanship can rise to the gravity of the situation.

While these observations apply in general to the country at large, I may take this opportunity of drawing attention to the immediate need of doing away with official red tape in certain respects at the present moment. In the first place, Government seems to be criminally slow in putting into operation its scheme for war risk insurance for industrial machinery and buildings. In the absence of this, investments are falling in value and the panic is on the increase. The Government is equally interested in some of the industries which are supplying war needs and I fail to understand why this very essential measure cannot go forward without delay so that the adverse effects of panic may be minimised on industrial investments. The same red tape methods will have to be cut down in the matter of income-tax collections. With the exodus of large numbers of people from the cities, the problems of income-tax collection will become difficult. If the estimated revenue is to be realised, the wiser thing would be to collect your taxes without unduly delaying and

[Sir Shantidas Askuran.]

harassing procedure for which the Income-tax Department has become notorious.

One other factor which adds to red tape and increased vested interests in the so-called official world is the multiplication of numerous offices and jobs of all sorts ostensibly on account of the war. While the strain of the new work due to the war must lead to new and more appointments, I doubt if the necessary precaution has been taken in this connection. All sorts of people irrespective of their qualifications are now being provided in the new offices with fat jobs and the feeling is widespread that instead of efficiency and despatch of work at this juncture, this has led to more red tape, more delays and greater waste and inefficiency. This must be stopped ruthlessly if the taxpayer is to feel that he is getting his due for the new burdens from the administration.

Coming to the proposals of the Finance Member for finding part of the purchasing power of the people for future use as a measure to prevent inflation, I may say that though they are in the right direction, they do not go far enough. The proposal for funding part of the amount collected as tax applies only up to incomes of Rs. 6,000. There are a large number of people above this limit, say, up to those with an income of Rs. 24,000 who should be assisted in the same way. Though some of them may have taken the advantage of maximum relief by way of insurance or provident fund, there are many among this class who do not have opportunities to obtain such relief or who cannot now get such relief even if they want to. Arrangements should be made by which people in this category should be entitled to the maximum exemption allowed in respect of insurance and provident fund, with the provision that the amount not claimed under this exemption shall be funded. This will serve the main purpose of the scheme of postponing purchasing power, and yet give some relief to this class of taxpayers, whose burdens in the form of commodity taxes and high prices are bound to be large in proportion to their incomes. I do hope the Finance Member will see his way to consider this point favourably.

The Finance Member has explained at some length the results of the scheme of repatriation of sterling debt. The advantages of internal debt as against external debt are well known and the country must be grateful to the Finance Member for taking advantage of the present juncture in bringing about this result. In this connection, I may refer to two points which should be borne in mind, in carrying out this policy to its logical conclusion. In the first place, we shall have still a sterling liability after the proposed arrangements are carried out. This is mainly on account of railway amenities. In addition to this, we are now incurring another foreign liability in the form of our Lease and Lend purchases from the U.S.A. This liability, the exact figures of which are not yet known, will however go on increasing during the period of the war. At the same time, the same causes which resulted in the accumulation of sterling resources to our credit in recent years will persist, perhaps in a more intense form. I should like to see in the first place an arrangement by which our entire sterling and dollar liabilities are extinguished by means of this credit, and, in the second place, if the credit in our favour is larger than required to pay off the debt, as it is likely to be, we should acquire gold either from the U.S.A. or from other sources; or the gold which may have been located in India on account of other countries. If actual importation is risky during the war, gold can be earmarked to our account and kept in the U.S.A. during the period of the war and brought to this country after

the war. I suggest this in order to strengthen our gold reserves ; such acquisition of gold will not only be a source of strength to our financial stability after the war, but will inspire confidence among the people who have been naturally sore at the huge exports of gold from the country in recent years.

Regarding silver, I should like to say that the Government of India should have a settled policy. I protested in 1935 against the reduction of the silver duty. Large amounts of silver stocks are held by the people as a store of value ; the poorer sections of the people cannot afford to have gold and they do not know modern methods of investment. Anything which is likely to depress the value of silver should therefore be discouraged. I am glad that the 20 per cent. surcharge on the existing silver duty will incidentally work in the right direction. I should, however, prefer that there is a definite policy in this connection and not an uncertain duty which may be changed at any time. I do hope this point will be borne in mind and early steps taken to formulate a silver policy for the country. In this connection I may draw attention to the frequent occasions on which the Government have sold silver at low rates with depressing effects on the market. They did so in recent weeks and have now found themselves in a halting position, if I may say so ; I wonder if their stocks are exhausted ? This policy is ruinous both from the point of view of Government finance because it involves a loss and also from the point of view of the poor man whose silver stocks depreciate in value. I submit in all earnestness that the Government of India should have a more definite policy for silver designed in the interests of the people. I repeat that if steps are taken to strengthen our gold reserves in the manner suggested by me and also to practise a consistent well thought out silver policy for the country, we shall be in a sound financial position to face new situations after the war.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU (United Provinces Northern : Non-Muhammadan) : Mr. President, in the Budget for the current year it was estimated that out of the total expenditure of about Rs. 127 crores a little over Rs. 84 crores would be war expenditure and the remainder, a little over Rs. 42½ crores, would be civil expenditure. It is thus clear that the war expenditure was double that of the civil expenditure. In the existing Budget however, the proportion of war expenditure has risen further. Out of a total expenditure of nearly Rs. 187 crores the war expenditure will amount to about Rs. 133 crores. Roughly speaking, therefore, our war expenditure would amount to about 75 per cent. of the Budget. Now, owing to the increasing expenditure on account of the war the Honourable the Finance Member has found himself in serious financial difficulties and has come to ask us for further help. According to the figures given by him, he will be faced with a deficit of about Rs. 17½ crores this year and in the next year with a deficit of about Rs. 47 crores. In order to meet the deficit next year he has proposed certain arrangements which would bring in about Rs. 12 crores, and as regards the balance of the expenditure he proposed to meet it by borrowing the money that may be needed. Now, the proposals made by him for increasing our revenue relate partly to increases in the income-tax and corporation tax and partly to the 20 per cent. surcharge on the customs revenue except in regard to one or two items. In addition to this the postal and telegraph rates are to be enhanced and a few other changes are to be made bringing in as I have already said about Rs. 12 crores. But this will still, as I have said, leave the Finance Member with a deficit of nearly Rs. 35 crores. In order to find the money required to meet this deficit and to pay for the repayment of 70 millions of the sterling debt which he proposes to repatriate

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next year, he relies, in addition to the defence loans, on two proposals made by him in the Budget. One is that people with incomes between Rs. 750 and Rs. 1,500 should either pay the income-tax proposed by him or should deposit a sum equivalent to one and a quarter times the tax that they would have to pay with the Government.

THE HONOURABLE MR. C. E. JONES (Finance Secretary): The limits are Rs. 1,000 and Rs. 2,000 and not Rs. 750 and Rs. 1,500.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: What I am saying is that the people who will make this contribution will be persons whose incomes are between Rs. 750 and Rs. 1,500 or Rs. 2,000?

THE HONOURABLE MR. C. E. JONES: The limits are Rs. 1,000 and Rs. 2,000.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: That is, if they are not prepared to deposit a certain sum of money with Government they will have to pay a certain amount of tax and the tax will have to be paid only by people whose incomes are between Rs. 1,000 and Rs. 2,000 only; but I understand that the deposits will have to be made by people with lower incomes.

THE HONOURABLE MR. C. E. JONES: If I might explain the position, Sir, people whose incomes are between Rs. 1,000 and Rs. 2,000 are at present not liable to income-tax. According to the proposals now put forward they will be liable to income-tax at the rate of six pies in the rupee on the excess of their income over Rs. 750 per annum. That liability only applies to people with incomes between Rs. 1,000 and Rs. 2,000 per annum and that liability can be discharged if they deposit in the post office defence savings bank account an amount which is roughly one and a quarter times the amount which they would otherwise be liable to pay by way of income-tax.

THE HONOURABLE THE PRESIDENT: Can you tell me how many people will avail themselves of this relief?

THE HONOURABLE MR. C. E. JONES: We imagine practically all, Sir, the option being extremely favourable.

THE HONOURABLE SIR SHANTIDAS ASKURAN: Are you going to advertise it fully so that poor people might know?

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: This is one of the methods by which Government propose to get a certain amount of money in order to meet the uncovered deficit and also to find money for the repayment of the sterling debt which they propose to repatriate. The other method relates to the Excess Profits Duty. Government are prepared, according to the Finance Member, to contribute an amount not exceeding one-tenth of the net excess profits tax at the rate of 66⅔ per cent. provided the assessee deposits a sum equal to double this amount. If the suggestion made by Government is accepted by the industrialists, as it doubtless will be because it is in their own interest, a certain amount of purchasing power in the hands of the people would be reduced and at the same time Government will get some money in order to meet their requirements.

Now, Sir, in order to consider to what extent the position as represented in the Budget is a true one we have to take account of the statement made by the Finance Member that in this year and in the next we expect to receive materials worth about Rs. 45 crores from America under the Lease-Lend Act. Of this about Rs. 11 crores will be received this year and Rs. 34 crores next year. It is obvious therefore that the material received this year or next year will not have to be paid for immediately. The Finance Member treats this expenditure on a cash basis on the ground explained by him that as the Government do not know—

“ the precise nature of the obligation that these Lease-Lend facilities will impose on the Government 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 we have obtained assistance on the same terms as England and as it is understood that the amount to be paid for the material obtained from America will have to be spread over a long period there is no particular reason why full provision for the payment of the price of the material should be made in the current year and the next year. Indeed when the Lease-Lend Act was passed it was thought that full payment might not have to be made in the form of cash and that certain other methods of payment might be developed. In view of these circumstances it seems to me that we shall be taking a truer view of our finances if for the time being we exclude this expenditure from the Budget only bearing in mind that there will subsequently be a long term liability to be discharged by us. If we take this view, we shall find that the deficit of Rs. 17 crores this year is reduced to about Rs. 6 crores and that of next year practically disappears. There will be only a crore of rupees to be found by Government to cover the deficit.

THE HONOURABLE MR. C. E. JONES : If I may say one word by way of explanation again, with apologies for interrupting, I should like to point out that a good proportion of this Lease-Lend assistance which is received will be used for the purpose of Indian forces that are sent overseas, say to Burma, in which case, as was explained in the Budget Speech the benefits and obligations will accrue to His Majesty's Government. It is only that portion of the lease-lend assistance which will certainly not amount to Rs. 45 crores which is actually retained in India in respect of which the benefits and the obligations will rest with the Government of India.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I do not doubt that at all. I do not mean to suggest that the money for meeting the present obligations would have to be found by the Government of Great Britain. I assume that the material that we were receiving would have to be paid for by us. Yet the arguments used by me stand.

THE HONOURABLE MR. C. E. JONES : Except as regards the amount. The amount would not be Rs. 33 crores next year or anything like it because the obligation will rest on His Majesty's Government for a considerable portion of the Rs. 33 crores. Of the Rs. 33 crores worth of materials which is received here, only the cost of such portion as is retained for the purpose of India would affect this deficit of Rs. 35 crores.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I am very glad to have this explanation because that makes the position clearer. The Finance Member's speech does not seem to make that quite clear, but I am

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nevertheless glad to have this explanation from the Finance Secretary. I should like to know what is the total amount of money for which we shall be ultimately responsible. Perhaps he will be able to give us this information when the debate is wound up as it is a matter of considerable interest.

THE HONOURABLE MR. C. E. JONES : I am sorry I would not be in a position to give that in any case. It will depend on the developments of the war next year.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : At any rate, Sir, so far as we can see, our position will be easier next year than it seems to be from the Finance Member's speech although a part of the advantage accruing from the assistance received under the Lease-Lend scheme from the United States of America will go to Great Britain.

Now, Sir, as regards the other items, I should like to point out that the Finance Member has budgeted for a contribution of Rs. 2½ crores from Burma.

12 NOON. This is the sum received by us annually from the Burma Government. I do not know to what extent we can rely on the payment of this sum. Let us hope that in spite of the gloomy situation in Burma things will improve and that the British and Indian Armies there will in course of time not only be able to hold their own but to drive the invader back, but I think as prudent men we cannot lose sight of the fact that it may not be possible for us to receive the budgeted contribution from the Burma Government. If we don't, our revenue position will to that extent be worse than is described in the Budget, but taking all these things into account and also the provision of Rs. 3 crores made for the reduction and avoidance of debt, it still seems to me that our budgetary position is better than would appear on a superficial reading of the Finance Member's speech.

Now, Sir, coming to the proposals made by the Finance Member, I should like first of all to welcome the preparedness of Government to contribute up to one-sixth of the Excess Profits Duty in order to enable the industries concerned to lay by some money for their development and rehabilitation after the war. This is a step in the right direction and it is one that will be warmly welcomed by all those who are interested in the industrial development of the country. I should like also, before I go further, to congratulate Government warmly on the steps taken by them to reduce our sterling debt. Large sums have been already repatriated ; further sums will be repatriated by them in the course of this year and the next year. I am extremely glad that Government have taken advantage of their resources at the present time to reduce the sterling liability of the country and thus to strengthen its financial position.

Having said this, Sir, I should like to say a word or two with regard to the actual proposals made by the Finance Member for raising revenue. In the present situation, while it would be easy to criticise measures suggested by the Finance Member it would be difficult to find alternative sources of revenue. Nevertheless, I am inclined to look askance at the increased duty on kerosene, which will hit poor people hard. The question is undoubtedly a difficult one and it is connected with the use of other kinds of mineral oils. I do not know to what extent kerosene can be treated specially but this is a matter which requires the consideration of Government.

Sir, Government have proposed an increase in the Customs duties. This will also to the extent that these increased duties will have to be paid on goods purchased by the poor man increase his cost of living, and, if in addition to this we take into account the rising prices, particularly in respect of the food-grains and textiles, I think it is legitimate for us to ask Government to have a little more consideration for the poor man even in these difficult times.

As regards, Sir, the scheme for what has been called "Compulsory Savings" by the Finance Member and which seems to be an adaptation of the suggestions put forward by Mr. Keynes with regard to England, I will only say that, while I welcome it in its broad features, I wish that people up to incomes of at least Rs. 1,200 a year should not be brought under it. My reasons are precisely those that I have already given for disapproving of the rise in the duty on kerosene. People with an income of Rs. 100 a month cannot even in India be regarded as the Finance Member contended in another place yesterday to belong to the middle class. If they belong to the middle class at all they belong to the lower middle class. The burdens which such classes have to bear are too well known to require any description at my hands and I should personally think that Government would be taking a wise step if they exempted people with incomes not exceeding Rs. 1,200 from the operation of their scheme of Compulsory Savings. I make this suggestion, Sir, further on the ground that in England, owing to the family allowances that are given, the position of poor taxpayers is better than it is in this country. Besides, in England foodstuffs are rationed. Here, the prices of foodstuffs are rising and the only way in which the poor man can be helped is by adding to his wages. In England, however, this difficulty has been overcome by the rationing of foodstuffs. Apart from this the British Government gives a subsidy in the case of milk, so that its use as far as possible might not be reduced. These are valuable features of the British system which require attention here but as we have not adopted those measures which make the situation rather easy for the man of small means in England I think this makes it all the more desirable that people with incomes up to Rs. 1,200 should be exempted from the Compulsory Savings Scheme. I do not mean that they will lose if they can save anything at the present time, but what I suggest is that they may find it hard, very hard, at the present time to contribute to the Savings Scheme propounded by the Finance Member.

I wish now to deal rapidly with one or two other matters before I come to the main feature of the Budget, namely, Defence expenditure. Sir, I have already referred to the rise in the prices of foodstuffs. This is a matter that was referred to in the other House yesterday. The Finance Member, I think, said in the course of his reply that as there was not a sufficient quantity of foodstuffs to go round it was all the more necessary that the purchasing power in the hands of the people should be reduced so that competition for the limited quantity of foodstuffs available might be reduced. He also said that attempts were being made to increase the acreage under food crops. I do not know, Sir, what are the efforts that have been made in this direction. I should like to have fuller information on the subject. We are at present asked to export cereals to Iraq, Iran and other countries, and Ceylon now wants us to send it the rice that it needs. We shall not grudge any assistance that we can give any country at this time. The people of this country will even be prepared to put up with hardships in order that they may help others who are in the same boat with them. But there is a limit to the sacrifices which can be imposed in this connection on them. It is not enough for Government to say that efforts are being made to increase the quantity of foodgrains.

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available to the people. I should like to know that determined efforts are being made in this connection, that the necessary plans have been made and that they will very soon be put into execution. Again, if there is only a limited quantity of foodstuffs to go round and its quantity is likely to go down in the near future, it is not desirable for Government to have some method of rationing them so that the burdens of the poor man might not be increased much further? So long as he has to compete with men of better means for the purchase of the necessities of life he will be at a disadvantage as compared with them. But if their distribution is taken in hand by Government, he will at any rate not be in a worse position than other people. I hope, therefore, that Government will take this question, which is a very important one from the point of view of the man of small means, into consideration.

Sir, there is just one word more that I should like to say with regard to those features of the Budget that I have already touched upon. I have already said that I welcome the efforts made by Government to reduce our sterling liabilities. But I should like to point out to them another direction in which they can help this country. There are three important railway lines owned by the State but still under company-management. They are the Bengal Nagpur Railway, the Madras and Southern Mahratta Railway and the South Indian Railway. The capital raised by these companies which will have to be repaid to them when these lines are brought under State-management is a small one. It is about £5,000,000 in the case of the Madras and Southern Mahratta Railway, £3,000,000 in the case of the Bengal Nagpur Railway and £1,000,000 in the case of the South Indian Railway. We shall, therefore, have to pay the companies managing these railway lines only about £9,000,000, unless they have raised additional capital since their last agreements with the Secretary of State—

THE HONOURABLE THE PRESIDENT : When do their contracts expire ?

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I will just deal with that, Sir. There remains the question of the expiration of their contracts. The contracts with the Madras and Southern Mahratta Railway and the South Indian Railway, as I pointed out during the course of the Railway Budget debate, will expire on the 31st December, 1945, and that with the Bengal Nagpur Railway in 1950. I hope, therefore, that the Government of India will seek the good offices of the British authorities in this matter and give undiluted satisfaction to the people of this country by bringing these State-owned lines under State-management.

Sir, before I pass on to the Defence Budget, I should like to say one word with regard to the need for economy in spite of the discouraging observations made by the Finance Member in another place yesterday. Taking the current year and the previous year together, our civil expenditure has increased by Rs. 11½ crores. These are exceptional times. Increase of expenditure is inevitable. We cannot scrutinise expenditure in the same leisurely way in which we can when peace reigns. Nevertheless, Sir, we should like to feel that a careful watch is being kept on the growth of expenditure and that every attempt is being made to see that every rupee that we spend is used in the best possible manner. I should, Sir, in this connection draw the attention of the Government to two points which in my opinion require explanation. They are small points. Even if they are satisfactorily dealt with, they cannot help appreciably to reduce civil expenditure. But such instances

create the belief that expenditure is not being kept under proper control. I shall first refer in this connection to the fortnightly called *Indian Information* which is published under the auspices of the Government of India. We know that there is an acute shortage of paper at the present time. I should like to know what are the steps that have been taken to use paper of a cheaper quality in connection with this paper or to reduce its volume so that there may be no undue competition with the private purchasers of paper. Again, Sir, this paper is issued in three editions, English, Urdu and Hindi. They have, I understand, a fairly large circulation. Are we certain that copies of this paper are sent only to people who can make use of them? The paper will be of use only to those men who are connected with journalism or with public affairs in some way. To distribute it liberally may make Government feel that it is being widely read, but I do not think that the purpose which they have in view will be served. The question therefore of scrutinising its circulation and reducing it wherever necessary should be considered and the quality and the quantity of paper used by it should also be brought under review, particularly as there is an acute shortage of paper at the present time.

The other point to which I draw attention is to the news published in January last, I believe in *The Leader*, regarding the additional subsidy of Rs. 4.56 lakhs which Government propose to pay to the Indian National Airways. This subsidy is to be paid in addition to the subsidy of Rs. 3.24 lakhs paid to it now. Formerly the Company was operating five services between, I think, Karachi and Lahore, three of which were extended to Delhi. According to a Press Note recently issued by Government, these services have been discontinued and a new Delhi-Calcutta service has been started by this Company. A question was put on this subject in the Legislative Assembly in the last session and I gather from the reply given by the Member for Communications that the whole question of giving subsidies to the companies operating air services was under consideration. I should therefore like to have full information with regard to the additional subsidy proposed to be given by Government to the Indian National Airways. In the first place I should like to know whether the information published in the papers to which I have referred above and which has not been contradicted by Government so far as I know is true. The second point on which I should like to have information is whether the subsidy, if it is going to be paid, will be paid this year or next year. And lastly, I should like to know what are the considerations that have induced Government to add materially to the subsidy already paid to this Company, particularly when it is making a profit of about Rs. 48,000. (*An Honourable Member* : On what capital?) I do not remember the capital.

Sir, I am afraid I have already spoken for a pretty long time but if you will be a little indulgent I should like to refer to my favourite subject, the Defence services.

**THE HONOURABLE THE PRESIDENT** : Please be as brief as possible.

**THE HONOURABLE PANDIT HIRDAY NATH KUNZRU** : Yes, Sir. As I said at the beginning, we shall be incurring this year an expenditure of Rs. 133 crores in connection with the defence of the country. We should therefore like to feel that the money is being utilised in such a way as to increase the capacity of this country for its defence to the maximum possible extent. The Finance Member has assured us in his Budget Speech that adequate steps are being taken in this connection. He has made special efforts to reassure us in connection with the question of the production of war material, regarding which

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there is no little anxiety in the country. I should like to believe that the picture painted by him is a true one, but I am inclined to think that he is a little too partial to the Government of India and that he might, without being unfair to the Government of India, have done the country a service by admitting freely that Government had not fully discharged the duty that lay on them in connection with the production of essential materials in this country. I will not go into detail on this question, but those who have taken any interest in it will I think agree with me that the hopes that we entertained from the Roger Commission have not yet been realised. The Report of that Commission has not been published. We do not therefore know what it contained. Nevertheless we understand that it made recommendations of a very far-reaching character. Even those recommendations may not suffice for our present needs because of the developments that have occurred since the Commission came to this country. But our fear is that even the recommendations made by the Commission have not been fully carried out and that the policy of co-ordination which was insisted on by the British authorities has prevented us from developing the manufacture of articles which could be got from Australia in the Eastern Group and from countries outside it. If this is so, a special responsibility rests both on the British Government and the Government of India in this connection. It is their bounden duty to do what they can at the present time to start new factories and to increase and expand existing ones to the maximum extent possible. The Finance Member has told us that about 20 new projects are in hand as the approval of His Majesty's Government to certain recommendations of the Roger Commission has been received. I do not know what the proposals were and to what extent the proposals of the Roger Commission have been carried out, but the delay that has taken place has already created a very serious anxiety in the country and has placed it in a position of great difficulty. I feel, Sir, that the cardinal weakness of our situation is that we have considered it our chief duty to arrange only for the supply of goods ordered either by our own military authorities or by other countries. I doubt whether things have been done in the same way in England or in the other countries engaged in the war. I regret that there is no Department of Production whose duty it would have been to pay incessant attention to this question to make plans ahead by anticipating needs and thus to be ready to meet contingencies that might arise in the future. It is not right that the military authorities should be left to plan for themselves. Had such a method been sound, Ministries of Production and Supply in other countries would not have been started. This cardinal weakness, I think, should be remedied as early as possible. I have no doubt that some attention has been paid to this matter also. But some visible proof should be given to the country of the readiness of the Government to take exceptional measures at the present time to deal with an exceptional situation.

Lastly, Sir, I should like to say just one word with regard to the extent to which the money spent on our defence has been utilised to build up the national morale and to enable the civilian population to take a hand in the defence of the country. In the debate that took place in the House of Lords the other day Lord Strabolgi suggested that the people of the country should be armed and observed that it was "the mark of a freeman at the present time to bear arms in the defence of his own country". But the Government of India have yet taken no steps in this direction. They are still obsessed by the fear that the arms placed in the hands of the people might be used in order to create disturbances in the country. No one who desires that the civil population should be armed wants that Government should just announce that it would give arms to

anybody who asked for them. If they are prepared to follow the policy suggested they would undoubtedly build up an organisation and train only those people in the use of arms who are prepared to come under their scheme. That is the method in which the civil population has been trained in other countries and it is the same method that ought to be utilised in this country. Had we had a National Government I have no doubt that this question would have been attended to long ago, but our misfortune is that while we are asked to contribute large sums for the defence of the country we are not allowed to have any voice in the direction of our affairs. This is a time when the desire for freedom among the people should be made use of to the utmost limit, when Government should stimulate the patriotism of the people at large and utilise it for the defence of the country. They are nevertheless, I fear, thinking of the stability of their own rule and have not yet taken those steps which free countries have done and which India would certainly have taken had it been free. This is the most important point that can be pressed on the attention of the Government at the present time. We all know that the question of India's contributational status is receiving the consideration of His Majesty's Government at the present time. But speed is necessary if very valuable time is not to be lost. Power ought to be placed in the hands of the people as early as possible in order that feeling that their own freedom is at stake this might be prepared in the same way as the people of other countries to make the utmost sacrifices for the preservation of the integrity and freedom of their country. I trust that this question will receive the early consideration of Government for unless it is solved our troubles and those of the British Government will not come to an end.

THE HONOURABLE MR. M. N. DALAL (Bombay : Non-Muhammadan) : Mr. President, Sir, the most characteristic feature of a war-time budget is the rising expenditure on the Defence services, which in India has already reached the scale of Rs. 40 lakhs a day, and is continuing to grow. Additional taxation or large scale borrowings is also an inevitable consequence of war-time finance. But one would have expected, along with these, an intensive drive for economy and eliminating all extravagance. The Finance Member's Budget Speech manifests the first two tendencies very abundantly, but war-time economy is conspicuous by its absence.

Speaking of fresh taxations, I must enter a strong protest against the lowering of the taxable limit of income to Rs. 1,000. This ropes in a class of people who are already hard hit by the war, by the rising prices that have come to stay in spite of all the price control measures either contemplated or put in force by the Government. These people have not much to spend unnecessarily, and the fact the Finance Member should have hit upon them for experimenting with his National Savings Scheme is indeed to be regretted. The amount that the Finance Member hopes to get in this way is not clear ; but it may be inferred that since he expects only a total amount of Rs. 5,30 lakhs from the income-tax, central surcharge on incomes, and the excess profits tax, the amount from this income-tax alone cannot be very impressive. The justification for this method is that the tax can be evaded if the people prefer to deposit with Government a more or less equal amount which would be returned after the war with interest. In my opinion this is hardly a method of checking inflation if that is the motive of the Finance Member.

As regards the Reserve which it is proposed to build up from the Excess Profits Tax, it amounts to nothing more in plain language than to ask for 80 per cent. now on the promise of returning 20 per cent. later. Of course, the

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scheme is not entirely without merits. The Finance Member has only diluted the scheme of John Maynard Keynes now in vogue in England and has endeavoured to apply it hesitantly. In the case of the Excess Profits Tax Reserve also, the Finance Member says that the Government are prepared to contribute an amount up to but not exceeding one-tenth of the net excess profits tax ultimately paid at the rate of 66½ per cent., provided that the assessee deposits a sum equal to double this amount. Though the scheme looks very innocent at first sight it is not without objectionable features. I do not mean the conditions under which it is proposed to give the Government's contributions, but the manner in which the Government intend to fulfil their part of the obligation. According to the Finance Member, 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". Which means the taxpayer has again to foot the bill for this contribution of the Government.

Now I may refer to one or two of the indirect taxation proposals. The raising of the postal letter rates from 1½ annas to 1½ annas is extremely ill-advised, for it seems to me there is not the slightest chance of Government benefiting by it at all. The public will now automatically take to the postcard as the cheaper method of communication, though it will inevitably imposed an arbitrary brevity on epistolary style. By increasing the letter rates to 1½ annas, the Finance Member has made the mistake of increasing it to the point of diminishing returns. He has also enhanced the Telegraph rates and the Telephone rates, and expects an increased revenue from this source. This also I believe is largely illusory, considering that since the outbreak of war the largest users of the Telegraph and Telephone services have been the Government themselves. The increased revenue can, therefore, be only a matter of book adjustment.

Finally, the Finance Member proposes to raise a large portion of Rs. 570 lakhs by levying a 20 per cent. surcharge on customs duties both protective and revenue. I welcome this surcharge, but it is however impossible to see how these expectations can be realised, in view of the increasingly uncertain shipping situation and the consequent shrinkage in import trade. The increased duty on kerosene for the time being in force, will also hit the poorer classes of people. I am however glad that the Finance Member has taxed us to the tune of an additional Rs. 12 crores, which is only a quarter of the total deficit, and the balance he wishes to cover by borrowing. I hope he will tell us a little more about our borrowing programme in his reply.

The Finance Member has devoted a considerable portion of his speech to the industrial progress in India as a result of the war. He is silent on the question of establishing an automobile industry in India, but speaks at length though late in the day, on the achievements of the aeroplane factory and the development of the Royal Indian Navy. At a time when it has become absolutely suicidal to depend on America and Britain for our essential requirements, it is to be hoped that the Defence Department would shed its prejudices, and make a start on similar lines for the automobile factory.

The Finance Member, again, referred in detail to the various training schemes under way, military as well as technical. In this connection I cannot help expressing my condemnation of the discrimination that is being practised by the authorities between Indians and British. Dr. Moonje, the founder of the Bhonsle Military School revealed the other day that the military authorities

turned down his request for the use of unserviceable rifles even though Government were placing even serviceable rifles at the disposal of European schools and institutions.

Government, it is stated, have examined the recommendations of the Roger Commission, and 20 new projects involving in all a capital outlay of Rs. 12 crores are under way or nearing completion. The Roger Mission's Report itself has not so far seen the light of day, though there has been insistent demands from the Legislature and the public that it should be published. In the circumstances it is impossible to share the Finance Member's jubilation at the mere number of twenty projects without knowing its long range nation-building value.

It is also difficult to enthuse over the fact of America's extension of the Lease and Lend facilities, when India does not know the precise nature of the obligations that the Lease-Lend facilities will impose on the country. 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, while the whole cost, initial and recurring, of such additional forces as are sent overseas is recoverable from His Majesty's Government. In the current year, the expenditure on Defence services are expected to be something like Rs. 100 crores initial and Rs. 40 crores recurring. India's share of these commitments will amount to Rs. 54 crores. In the coming year, India's share of the expenditure on the defence services has been placed at Rs. 133 crores while the amount expected to be recoverable from His Majesty's Government is put at the enormous total of Rs. 400 crores. As the United Kingdom is only to meet the cost of such troops and equipment as are sent overseas, the disparity in figures of Rs. 133 crores and Rs. 400 crores is too striking to escape notice. Its significance is, that the preparations for India's local requirements amount to a little more than one-fourth of the preparations which are made for purposes of Imperial defence. Of course, spokesmen of Britain and the Defence Department in India have tried to justify that the troops and material sent overseas are for defending the outer bastions of India in the east and the west, and that is designed to ward off war from India's shores. With the fall of a much valued outer bastion like Singapore, no Indian can contemplate with equanimity the drain of men and material from India's shores any longer. Such a policy has not succeeded in warding off the war from India, and the consequences of still persisting in it may be fatal. It is no consolation to be told that His Majesty's Government foots the bill for this policy. India is perfectly willing to foot the bill entirely herself, provided all the efforts are directed towards the immediate purpose of defending India's security.

Of course, I realise that in war time no estimates with regard to the future can pretend to be infallible. The taxpayer may at some future date again be called upon to pay for what the Government have now held out as a bait for the richer and upper classes. But, the method of finding out new sources of taxation, especially those connected with the National Savings Scheme, without regard to their desirability, betray a panicky state of mind, in which the only dominant consideration is to get more money. However, the war comes to the rescue of the Finance Member, and so far as this war is concerned, I have no doubt Government can rely on the support of the whole country in any financial measures they may be obliged to take to defend this country, and preserve its place of honourable freedom in the world.

THE HONOURABLE MR. R. H. PARKER (Bombay Chamber of Commerce): It is a very poor consolation to be one of the few people who five

[ Mr. R. H. Parker. ]

years ago were critical of a Budget of Rs. 45 crores for the Army as being inadequate in the face of the rearmament of the other nations of the world. I would like to say a few words in comment on things that have been said this morning by other Honourable Members.

Sir Shantidas Askuran was pressing upon Government the importance of War Risk Insurance. With those remarks I am in full sympathy but we all know that with the vast resources of the British Insurance Companies they came to the conclusion before and after the beginning of this war that they were not in a position to deal with the situation. This gives some idea of the complexity and difficulty of doing so.

THE HONOURABLE SIR SHANTIDAS ASKURAN: The other day the Commerce Member said that Government is preparing a War Risk Insurance scheme.

THE HONOURABLE MR. R. H. PARKER: I know that. I hope he is, but I am merely pointing out that it is a very difficult subject and therefore he has taken time.

Sir Shantidas Askuran also referred to the subject of gold and he deplored the exports of gold from this country. I think the real point is what we have got for the gold. Personally I would rather have two good guns than 200 tons of gold.

The Honourable Pandit Kunzru referred to the Excess Profits Tax and to the provisions relating to the amount which Government agree under certain conditions to set on one side for the future benefit of the assessee. Well, I think those benefits depend very largely on three or four factors which are quite unknown to us. One is how long the war will last and another is the terms of repayment. Neither of these is known and I think it is highly desirable that Government should as soon as possible announce those terms.

The Honourable Pandit Kunzru also urged the case, for some unknown reason, of the man who gets between Rs. 1,000 a year and Rs. 1,200 a year. I do not know why he draws a line at incomes of Rs. 1,200 instead of at Rs. 1,000 but it seems to me a small point to argue about. I would like to suggest that another class of person be invited to contribute to the funds required for the war effort on an income in somewhat similar manner and that is the large number of individuals who are now being paid for assisting in the war work who would not normally be earning any income at all. I suggest that those persons might be asked to take their pay in some form of deferred assets.

One Honourable Member—I think it was Pandit Kunzru—referred to the waste, as he called it, of money in connection with the paper, *Indian Information*. I do not know whether all recipients had a similar communication but I remember receiving a communication asking me whether I made use of it and whether I would like to have more copies and I had an opportunity of saying “Yes” or “No”, and I do not think we can grumble about that.

Then I would like to support the remarks made in favour of a Department of Production. It is one thing to look at a subject from the Supply point of view and quite another thing to start at the other end and see what can be done, what can be produced and so on and the two should naturally meet somewhere and discuss the different problems.

There were complaints about the lack of distribution of arms to the general public. Firstly, we have not got enough arms for the trained soldiers I take it, or certainly for the potential number of trained soldiers. If we had those we might take care of the rest.

**THE HONOURABLE PANDIT HIRDAY NATH KUNZRU :** We should be all the more worried then.

**THE HONOURABLE MR. R. H. PARKER :** To get more arms and to make use of them I agree.

Sir, no one regrets more deeply than I do the extent to which the aid of the United Kingdom has proved to be inadequate but all in India must bear their share of the responsibility for this state of affairs for few, if any, in the past showed a real willingness to contribute to adequate defence expenditure.

I cannot help feeling that there is something admirable in the efforts now being made by England to regain lost ground. A contribution to the defences of India in one year of Rs. 200 crores and in the following year of Rs. 400 crores—the latter comparing with Indian expenditure of Rs. 133 crores—is something for which gratitude seems due. It is a point that perhaps we ought to have taken into account the other day in this House when we were considering the Resolution moved by the Honourable Pandit Hirday Nath Kunzru recommending that the defences of India should be placed entirely in the hands of an Indian. I do not say that that Resolution was wrong. I spoke in favour of it and I voted for it. But I still maintain that this is a point that perhaps we ought to have brought before ourselves.

I am sorry to see there are in some cases indications of a lack of co-ordination of control of expenditure to ensure the maximum benefit in connection with A.R.P. There have been cases where the methods of protecting adopted by Government-controlled institutions have been directly contrary to the expert advice issued by Government itself, advice which was accompanied by very stringent reasons for following it. It seems very important that care should be taken that all the best available expert knowledge should be followed so that the greatest possible benefit may be obtained out of the expenditure necessarily incurred.

It may be that owing to the extraordinary increase in the share of local Governments in the proceeds of the taxes on income, that some of them will find themselves—despite their obligations arising out of the war—with unexpected surpluses. Generally speaking, on economic grounds it must be carefully borne in mind that such surpluses should be spent only on immediate requirements of an essential nature and that it will be beneficial to reserve what can be set aside for expenditure at a later date. The reasons for this view are obvious and there is no need to explain them but it might be particularly borne in mind by local Governments and this view should be urged in the Provinces—particularly in those concerned—that such funds not now required might very usefully be utilised after the war for the improvement of local communications, in particular roads.

It has to be remembered that many men will be returning from the war ; some of them will be used to driving vehicles ; there will probably be many motor vehicles coming back from the Defence services and it seems highly probable that the best way to utilise both for the good of the men in question and the public in general will be to utilise roads for the development of the country.

[ Mr. R. H. Parker. ]

For the time being so far as communications are concerned, there are many important problems. We hope the new section of the Communications Department will have success in their endeavours to get the maximum use out of all available means whether by rail, road or water. Sir Arthur Salter who has taken a big part in transportation problems in England both in the last war and in the present war once said that water transport had the great advantage that God had provided the "permanent way". I think that is a very apt remark and we have been apt to ignore water transport in more countries than one. It is of vital importance in the time of war that no vested interests should be allowed to stand in the way of the development of alternative methods of transport. In India the biggest vested interest is the Railways. It is important that everything should be done to conserve our petrol supplies and to provide alternative means of propelling road transport.

The Honourable the Railway Member recently said that the contribution which the roads could make to transport problems was only some 2 per cent. of the total. Did he take into consideration the fact that 2 per cent. of the total—even though it may not be capable of improvement as I suggest this 2 per cent. is—may also be an essential contributory part to the remaining 98 per cent. which but for the 2 per cent. would be in the grave difficulty of being unable to complete its function owing to the difficulties of getting the goods transported to and from the railways themselves. That is a very important aspect of the matter to which I particularly draw the attention of Government.

The Finance Member is clearly in a dilemma. Much of the preparation for the Budget must have been done before Japan came into the war and obviously the fall of Singapore and its consequences could neither be measured nor taken into account in framing the Budget.

He draws attention to the large extent to which the revenues of India depend on Customs receipts. It is evident that the present situation may cause a very serious decrease in the receipts from this source and it seems necessary to face the possibility that arising out of this position it may become necessary to have a supplementary budget, and any attempt to replace a shortage in revenue or to increase the sources available to meet increased expenditure could only be made in the light of the factors then known and now unknown.

It might for example be appropriate to increase the surcharge on Customs duties in the case of a decrease in the turnover in them. On the other hand it might be essential to find some alternative source of revenue in the event of the Customs receipts failing to an extent which would not allow of an increased surcharge being of any material assistance in the solving of the problem.

There are even now certain lines of thought which are indicated by the position in Great Britain. Excess Profits Tax is substantially higher there than in India as also are the taxes on income.

My personal view is that for the time being the Finance Member has acted wisely in not increasing either of these taxes more than he has done. Excess Profits Tax leaves a margin for gain which in existing circumstances seems likely to assist the war effort more than raising the tax to a higher level would. I think the question is a purely practical one of what will produce the best results for war purposes.

Much the same considerations arise in connection with income-tax and super-tax. In comparing the rates of these taxes with these in England it is

always necessary to bear in mind as one Honourable Member said this morning that there are allowances such as family allowances which do not seem suitable for application in India but which do tend to reduce the effective rate of tax in England.

The Finance Member has indicated by various measures in connection with income-tax that he is anxious to do all he can to avoid inflation. He knows as well as we do the terrible things that happened in Germany and other countries after the last war as the result of the disastrous policy followed and the inflation which took place.

There are hardships which cannot be eliminated in time of war. The solution of the rise in the cost of living is not met and cannot be met merely by an equivalent increase in payment to those who have to bear that cost. It is quite evident that the position is really controlled by the quantity of goods available and not by the quantity of money placed at the disposal of those who want the goods. Distribution of remuneration partly in the form of goods and control of prices are better ideals in the particular circumstances of the case than higher cash wages. It is obviously the effective purchasing power of cash that matters as became all too clear 20 years ago when millions of marks and million of roubles were useless and could be exchanged for nothing of any value.

In speaking on the Railway Budget recently I suggested that some authoritative advice from Government to employers would be useful. The Honourable the Communications Member then said that such advice might perhaps be given in connection with the General Budget, and I hope it will.

While, as already stated, hardship cannot be totally avoided during war, one has to minimise this while at the same time avoiding to the greatest possible extent the damage which would otherwise be done by inflationary tendencies. Apart from immediate requirements to meet increased cost in living, some persons suffer from a fear resulting from their present incapacity to save what in normal times they would have been able to save to provide for old age. If anything is done to meet this it would seem that it should be done in the form of some deferred asset which could only be realised after the war. This principle has been recognised in the new income-tax proposals relating to people with an income of Rs. 500 a month or less. It was suggested just now by one Honourable Member that that figure should be a higher one. What I would like to emphasise there, and it was mentioned in the other House yesterday, is the very great desirability of making it impossible for anybody to have a legal charge on sums of this kind set aside temporarily. At any rate my experience in this country is that, where a legal charge can be obtained on an item of that kind, it is very frequently charged from month to month, with disastrous results and a complete failure to attain the object in view.

Another class where claims should be dealt with by such deferred assets is the class where it is found proper to reward them as the result of increases in profits. Certainly to the extent to which those rewards are not reasonably required in connection with increased cost of essential consumption goods—in particular sufficient food for the health of those concerned,—the deferred asset system should be applied.

I think each of us, whether we are in the Services or whether we are in business, ought to take to heart the following advice which was actually given in the earlier days of this war to the British Civil Service. "Red tape" may

[Mr. R. H. Parker.]

be a source of some amusement in ordinary times, but it certainly is not so in existing circumstances.

"In peace, the British Civil Service stood supreme. It was honest, it was free from 'graft', it was impersonal. Its system, built up over hundreds of years, was devised to counterbalance hot-headed enthusiasm in the fighting services, to prevent extravagance and waste in local government, to take the long view, and to administer the country with an almost Olympian detachment. It may have worked slowly but it worked with accuracy and precision. It worked without praise or limelight for the individual.

Now Britain is faced with invasion. India is now. Many of these qualities which made the Civil Service great in peace time now constitute a danger to the Service itself and to the nation at war.

The Civil Service is directly responsible to the soldier and the sailor. Loyalty to its country comes before loyalty to its system. You who are a Civil servant, you who are a merchant, know many instances of the system slowing down war effort. You cannot allow this to happen. You are not thinking in year: now, nor in months, nor in weeks, but in *days*. Complacency can undermine your country as it undermined the French.

This is no time to pass responsibility. This is the moment of initiative. This is the time to act, and argue afterwards. Better you should risk losing your job than losing your honour and your country. You have the choice of oiling the machine or clogging the works. Is your conscience clear?"

If there be any here who doubt the necessity for supporting the proposals now before them, more especially those in connection with the War, to them I would repeat the words of Aristotle: "We make war that we may live in peace". That is, I suggest, the only justification there can be for war. Professor Gilbert Murray has stated in slightly more detail our reasons for being involved in this war:—

"We went to war to save ourselves and the rest of the civilised world from the triumph of organised crime and we are fighting now for everything that man holds sacred".

Sir, in supporting the Finance Member's proposals what are we really doing? We are aiming at the provision of human and material equipment required to defend this country and to win the war. Are Government doing all they can to provide the necessary equipment of the material kind? Is everything possible being done to improve our production? Are Government seriously examining this aspect of the matter and will they do everything in their power to fill in the deficiencies? But material equipment alone is not enough. The human element is an essential part both in the production of that equipment and the utilisation of it. We are taxing the financial resources of all those in India in accordance with their capacity to pay. We must conscript for the national benefit not only their wealth but their power. The European manpower of India was rightly conscripted in the very early days of the war. Indian manpower for the Army was rightly not so conscripted, nor is there any need to adopt that method now or so long as adequate recruits come forward voluntarily to meet the Army's needs; but there are other essential services besides the Army. Government have already dealt with some of them: they have taken powers in connection with technical personnel; they have taken powers in connection with motor drivers. They should do the same wherever there is a shortage of the human element required for war purposes. Have we not here a shortage of doctors for military purposes?—then let doctors be conscripted. Have we not here a shortage of nurses for military purposes and for the purposes of civil defence?—then let women be conscripted. No one has a right in these days to sit back and make no contribution other than a financial one to the common cause. No woman who is

spending a few hours a week or even a few hours a day helping to serve soldiers in a canteen or rolling bandages for the Red Cross is doing her fair share.

There is a great deal to be said for relying on voluntary aid so long as that produces an adequate supply, but no shortage should be left unfilled and all those who are suitable to complete the required complement should be required by the State to do so.

Let Government first make a widespread announcement stating what their requirements are now and what they are going to be as far as can be foreseen as time goes on, and let them at the same time state that if there is a shortage after voluntary recruitment, then that shortage must and will be made good by other methods.

THE HONOURABLE COLONEL SIR HISSAMUDDIN BAHADUR (Nominated Non-Official): Sir, I should like to say a few words but not as a politician, which I leave for others. I noticed today, Sir, a lot of complaints about the past, which in my humble opinion would produce no useful purpose. In Persian there is a proverb. They say:—

“Guzashta khabast

Ayanda khial

Ghanimath dan

Hamin damke Halast.”

It means, “The past is a dream; the future is imagination; deal with the present situation”.

Sir, I now turn to the Budget.

I congratulate the Honourable the Finance Member for his lucid and illuminating speech and the presentation of his war Budget. The finances of our Government have been strictly and properly controlled and the taxation proposed is not so heavy contrary to expectations in view of the serious situation. The inevitable increase in the expenditure of the Defence services to the tune of about Rs. 40 lakhs a day reveals the gigantic defence measures taken by the Defence Department which deserves our whole-hearted support. The defence expenditure may have yet to go high in view of the still thickening war clouds and the Government may fully rely on the prompt and whole-hearted support of this Honourable House and the whole country in any war defence measure they may be obliged to take to defend this country.

In regard to the raising of the postal letter rates from 1 anna 3 pies to 1 anna 6 pies I would request the Honourable the Finance Member to inform us whether any steps have been taken to give concessions to the soldiers abroad and their families in this country. The continuance of correspondence between the soldiers abroad in various theatres of war and their families here has a very healthy wholesome refreshing and consolatory effect on both sides and thus is highly desirable. I would strongly urge the Honourable the Finance Member to give his due consideration to this aspect of the case.

I need not, Sir, recapitulate or dilate in detail the present war situation which is already so serious, I would suggest and request for a further cent. per cent. strengthening of the present war effort. United effort and perfect agreement was never more essential than today. The common enemy must be crushed, lock stock and barrel. Let us rise above petty politics. Let us render all assistance in men, money and material and, above all, spare no pains to keep up the general morale of the public at large. Co-operation with local

[Sir Hissamuddin Bahadur.]

authorities on all war defence measures should be our watchword and combating of false and alarmist rumours our social and daily life duty. Let us have faith and trust in the authorities concerned with the various aspects of the war work.

With these observations, Sir, I once again congratulate the Honourable the Finance Member for his war-time Budget, and give my heartiest support.

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

The Council reassembled after Lunch at Half Past Two of the Clock, the Honourable the President in the Chair.

THE HONOURABLE MR. P. N. SAPRU (United Provinces Southern Non-Muhammadan): Mr. President, I do not think I would be wrong in saying that the Budget which has been presented by the Honourable Sir Jeremy Raisman is the largest that the country has ever been called upon to consider. It reflects the world situation which is at the moment dark and dismal and no one knows what tomorrow has in store for us. Never in the history of humanity has mankind had to go through a gigantic struggle of the nature it is going through today and optimists tell us that we are literally witnessing the birth pangs of a new world order. No doubt for the moment the Japanese aggressor has over-run parts of the Pacific and established naval and air supremacy in the Pacific regions but the resources of the democracies and the Soviet Union are much vaster than those of the Axis Powers and if the war situation is handled with courage, with vision, with imagination, with love of freedom and democracy, there is every room for confidence. The lessons of Singapore, Malaya, Hong Kong and Burma ought not to be forgotten. Under-estimation of the enemy's strength, indifference to the policies pursued upon the morale of the civilian population, lack of proper utilisation and distribution of resources locked up in England, insufficiency of production in dependent parts of the Empire, these are the causes which have contributed to the victory of Japan in the Far East, and these causes must be eliminated, must be removed if we are to win victory in this gigantic struggle against the dark forces of vandalism. Some of these difficulties are political in their nature; they can only be removed by political remedies; they require for their correction an extension of the principle of freedom for which the democracies profess to be fighting. Others are economic, and I will confine myself at this stage only to considering the economic situation *vis-a-vis* the war. The Budget is undoubtedly a very large one and the deficit of Rs. 47 crores might appear at first sight to be a very large one for a country as poor as this country is, but in magnitude, size or the sacrifices it calls upon the country to make it does not compare with the budgets of the United Kingdom, or the United States or, for the matter of that, an enemy country, Japan. A National Government would have been more courageous—and this is one of the difficulties of the present Government; it cannot be as courageous as a National Government—a National Government would have been more courageous in calling upon people to make sacrifices cheerfully for the cause, for the sacred cause of freedom and democracy, and I do not wonder—he not being member of a National Government—I do not wonder that Sir Jeremy Raisman has, with all desire to be fair to all sections of the community, had to be somewhat too tender to the class of taxpayers who are the mainstay of British power in this country, I mean the British Indian vested interests.

The Defence Budget has gone up to Rs. 133 crores. That is to say, it is nearly two and a half times more than it was in normal times. As a monetary budget there is much that can be said for it. But it will be wrong to suppose that by merely spending money we can win the war. Money must be directed towards that reduction of greater and greater volume of goods and resources which are essential for the winning of the war. National resources, both human and material, must be organised on a total basis, for it is a total war in which the democracies are engaged. For military purposes, recruiting is going on, and we are glad that over a million men have been recruited in this country. But I venture to think that in a population of 400 millions it was possible to recruit many more than a million people. Australia which has a population of about 7 millions has nearly a million men under arms. There is, in fact, no adequate provision, so far as I can see, for the maintenance of internal security in the country. We have so far looked to Singapore, the Suez, Iraq and Iran as our defences. Singapore has fallen and therefore our internal defences—defences for the defence of this country—need strengthening. We need to keep our best troops here and we need to raise a big army on a voluntary basis for the effective defence of our homes and hearths. Sir, we had last year an announcement that Government wanted to establish civic guards. They did establish civic guards. I have seen something of these civic guards. They have no arms, they have no rifles, they have just some *dandis*—

THE HONOURABLE MALIK SIR FIROZ KHAN NOON (Leader of the House) : Sir, I do not want to interrupt the Honourable Member, but would it not be advisable for him to keep these remarks for the secret session.

THE HONOURABLE MR. P. N. SAPRU : There is nothing secret about it. The Honourable the Leader of the House is much more touchy than, I think, the Defence Secretary—

THE HONOURABLE MALIK SIR FIROZ KHAN NOON : I am not touchy at all.

THE HONOURABLE THE PRESIDENT (to the Honourable Mr. Sapru) : Please don't be personal.

THE HONOURABLE MR. P. N. SAPRU : I am not at all personal. I am only commenting on facts which are generally known—

THE HONOURABLE THE PRESIDENT : The Honourable the Leader of the House has pointed out that these remarks would be more opportune at another time and not on the general discussion of the Budget. That is all what he said.

THE HONOURABLE MR. P. N. SAPRU : Our internal administration is weak. If rioting and looting were to break out as a result of air bombardments or of possible landings by Japanese troops, there will be neither security of life nor of property in this country. There are more armed dacoits and robbers than air raid precaution men in this country. The machinery of Government is therefore inadequate to deal with the enormity of the problem that confronts us. Departments are, as the Honourable Mr. Parker has now realised, being run on the old bureaucratic red tape lines and they cannot cope with the volume and character of work which this war necessitates. When I looked into this Budget I wanted to find out whether it has occurred to this Government to establish at the centre a Department of Home Security

[Mr. P. N. Saprū.]

and I found that there was no provision for any Department of Home Security. The urgent need is to arm people with rifles, with small guns. The urgent need is to develop the will to fight among the people, the will to resist the aggressor, and for this reason, arming of the people, as pointed out by Lord Strabolgi in the debate in the House of Lords, is very necessary.

THE HONOURABLE THE PRESIDENT : It is true, but the Honourable Mr. Parker said this morning that we have not armaments enough to arm the soldiers and much less to arm the people at this juncture, if I understood him correctly.

THE HONOURABLE MR. R. H. PARKER : Yes, Sir, that was my point.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : That is a remark he might well have made at the secret session.

THE HONOURABLE MALIK SIR FIROZ KHAN NOON : I agree.

THE HONOURABLE MR. P. N. SAPRU : I think it is not too late even today. We can, if we have the will, get the necessary plant for expanding our factory production from the United States or the United Kingdom or Australia, if communication between Australia and India is possible. Given the will, we can do these things. But we regret to say that there is no will to do these things on the part of the Indian Government. Sir, I have no doubt that new factories have been established and existing ones expanded, but our industrial effort is not commensurate with the requirements of the war situation. The war industries and the subsidiary industries should be expanded by getting plant from the United States and I venture to think that it is not too late to do this. In particular I would mention the automobile industry and the ship-building industry.

Now I shall pass on to the question of agricultural production in this country. For internal peace, adequacy of food supply and full employment of the masses are necessary. How can you keep the masses at peace when they have not got adequate food, when prices are rising and their purchasing power is not in proportion to the rise in prices ? In many places there are complaints of lack of grain. In my own town of Allahabad there is a shortage of grain. In Delhi there is shortage of wheat flour. Agricultural production may not have actually fallen but we have been exporting our agricultural products to many theatres of war in the Middle East. Therefore there would seem to be need for expanding our agricultural production. The question is how can our agricultural production be improved and increased in volume ? I read with interest the other day the recommendations of the Council of Agricultural Research in this connection and I would like Government to take into early consideration those recommendations and do something to improve agricultural production. We cannot increase it by orthodox methods ; we must have a direct frontal attack on the problem and we must specially make the agriculturist grow food crops, rice, wheat and other foodgrains. Sir, canal rates in the provinces are too high ; they should be reduced and every effort should be made by the Central Government to see that they are reduced. Then the agriculturist should be supplied with seed at cheap rates. I would even go to the extent of suggesting as an experimental measure the grant to him of free seed. He must be provided with manure ; he must be told

what to produce and there should be effective propaganda in regard to agricultural production. There is need at the Centre for a propaganda officer for the Agricultural Department. His duty would be to keep in touch with the provinces and see that agricultural production is speeded up by Government aiding the agriculturist in every possible way. There must be definite and distinct planning of agricultural production, so that in the event of emergency we might be able to maintain internal peace in this country by having sufficient food in it. You have to guard against the danger of food riots. The present position is that you have idle men in this country, and idle land and, in many cases, idle flow of water. I should therefore like all these idle men and lands utilised in the national interest by planned effort.

I now come to the taxation part of the proposals. In the Budget there is a partial scheme for national savings. It is an imitation of the British plan which was advocated by Mr. Keynes. So far as this scheme is concerned I would like to say that the man on an income of Rs. 1,000 a year in this country is in a very difficult position. He has to live in a period of rising prices and he has many responsibilities which English people do not often appreciate. He has often to think of his daughter's wedding or his son's wedding, or he has to think of the funeral of his father or mother. These are expenses which it is not possible for Indians to reduce. Therefore I say that this scheme is likely to work hardship upon the small man with an income of Rs. 1,000 or Rs. 1,200, and I agree with the view of Dr. Kunzru that the limit should be raised to Rs. 1,200. It is optional for him to go in for the savings scheme and one year after the end of the war he will have his savings back. But it is impossible for him in all cases to reduce his monthly budget, and therefore as a measure of relief I would advocate the raising of the limit to Rs. 1,200.

Then I come to another part of the Honourable Member's budgetary proposals. I have not been able to understand why the excess profits tax system has not been completely overhauled. Profiteering is rampant both in the wholesale and in the retail trade, and the fear is that Government, having attacked the problem at the wholesale stage, the retail trader goes free. Sir, excess profits in their present form attack only the larger corporations and people with an excess of their standard income of Rs. 36,000. Why should there be this excessive limit of Rs. 36,000? What is the theoretical or moral justification for such an excessive limit? Taxation should touch those who are able to bear it and those who are most able to bear it are obviously those who are profiting by this war, profiting by the sacrifices which hundreds or thousands of young men are making in the battlefields of Libya, of Burma and other theatres of war. Therefore I think that, instead of going in for indirect taxation like an increase in the duty on kerosene oil, the Honourable the Finance Member would do better by attacking the excess profiteers, and I would suggest that he should seriously consider the question of reducing the exemption limit from Rs. 36,000 to some more reasonable figure, Rs. 15,000 or Rs. 20,000. If you do not provide some relief for the masses then you mulct them twice ;

3 P.M. you mulct them inasmuch as you make them pay higher taxes by increasing indirect taxation and you mulct them by making them pay higher prices for their goods. I venture to think that the revenue can be very largely increased if the limit is lowered, because the largest number of people making excess profits are in the range between 15,000 or 20,000 and 36,000. The Honourable Sir Jeremy Raisman will be able to give us figures as regards the number of people in this range.

Then, Sir, I find myself also opposed to the proposals regarding the raising of rates for Posts and Telegraphs. The net profits in the current year from the

[Mr. P. N. Sapru.]

Posts and Telegraphs Department is expected to be in the neighbourhood of Rs. 318 lakhs. Why should there be an increase when your Department is yielding you profits on envelopes and telegrams? The increase on postage is about 20 per cent. I think the present rate is 5 pice; the contemplated rate is 6 pice. Telegraph rates are also going to be increased. The increase in the revenue in the Budget is to be only, according to the estimate supplied to us, about 10 per cent. That means that by increasing the rate by 20 per cent. you expect diminishing returns. Being a public utility service, it strikes me that the Posts and Telegraphs Department should not be utilised as a tax-gathering agency. I find, Sir, that the aerographs rate has been reduced from 14 annas to 8 annas. Why has there been this reduction? You have increased the rate on postal letters, and not only big but small commercial firms will be hit hard by the increase. It may be said that so far as the postcard is concerned, there has been no increase. But I think, Sir, that is not an adequate answer. The postcard can be read by anyone and many people do not like to write intimate details about their business or family affairs in postcards. They rather like to use the postal letter. Therefore I think that by choosing the envelope you are making it harder for poorer folk to communicate with each other and in times of difficulty it is necessary that you must have a proper system of communications, because you must guard yourself against panic.

THE HONOURABLE MR. R. H. PARKER: Aren't the secrets that you must hide so carefully worth an anna each?

THE HONOURABLE MR. P. N. SAPRU: The Honourable Mr. Parker looks at the question from his point of view. He is a wealthy man—

THE HONOURABLE MR. R. H. PARKER: Not at all.

THE HONOURABLE MR. P. N. SAPRU—and I do not envy his wealth at all. I wish him the joy of it. But he forgets that the vast millions in this country have not got even enough to have a square meal a day and they occasionally have the pleasure of writing a letter. You want to deprive them of that pleasure. It is a pleasure which you might not deny to them even in war time when other sources of income are available to you. Therefore, Sir, I find myself opposed to two particular kinds of taxation which have been suggested by the Honourable the Finance Member. I find myself opposed to the tax on kerosene oil and I find myself opposed to the increase in the postal and telegraph rates.

Sir, I wanted to point out that the working class cost of living index number of prices for certain centres is given in the Explanatory Memorandum at page 31 and in October the various figures for various places were:—

Bombay 125, Madras 115, Cawnpore 134, Lahore 160.

In December the base figure was 121 in Madras. Now, Sir, I do not know what the wage level is, but I should like to know whether wages in these places have kept pace with the prices. Perhaps the Honourable the Finance Member will be able to enlighten us on that point. My impression is that wages have not in these places kept pace with prices. It is important from every point of view that you should have the fullest co-operation of the working classes in this struggle and you must keep them contented and you cannot

keep them contented unless you adopt some system of increasing their purchasing power. It is not enough to say that purchasing power has been increased or that there is an increase in purchasing power. It is not by reducing the volume of goods in circulation that you can tackle this problem. It is by increasing production and thereby increasing the purchasing power of the people that you can best attack the problem.

Sir, the great need, therefore, at the moment is that we must have increased production and we must have planned production. Increased and planned production only a National Government deriving authority from the people can give to this country and it is a National Government that can supply spiritual leadership to a community which is fighting for ideals of freedom and democracy.

Sir, I do not wish to dilate on other parts of the Budget ; they will no doubt be commented upon with greater ability by the Honourable Mr. Hossain Imam, who is an authority on finance and have been dwelt upon by Dr. Kunzru, and therefore, Sir, I would like to wind up by emphasising once again that the political aspect of the problem cannot be separated from the financial aspect, that howsoever we may deeply sympathize with the democratic cause, we cannot give the best that is in us to that democratic cause unless Government helps us by satisfying the aspirations of the people for freedom and industrialization. Sir, these are all the remarks that I have to offer on the Budget. (Applause.)

THE HONOURABLE MALIK SIR FIROZ KHAN NOON (Leader of the House) : Sir, I thank you for giving me this opportunity of expressing my feelings on one or two points. Firstly, I should like to say that it has been a great privilege and pleasure for me to have listened to this general discussion. The tone of the debate has been so high that my heart is full of admiration for all of those who have spoken. One would expect that a Finance Member who mulcts the public of a few rupees they would show him fists and spare him no threats. It was a real pleasure to see that the elder statesmen here—even though my colleague on the right has run away with thousands of rupees from their pockets)—sit still and smile stoically. I should like to express my thanks to them and my own pleasure at being in their midst.

Secondly, for the Honourable Members who may be speaking hereafter, I should like to make a suggestion, without in the least having any desire to curtail their debate. So far as the discussion of war effort is concerned, it is in the public interests that we should avoid that discussion when making comments on the Budget. There are many things for which we have excellent answers, but we feel that it is not in the public interest to give those answers here. I give you a simple example. A Member says a certain thing and we feel we ought to deny it knowing that the information is wrong and yet a mere denial of that fact can be of use to the enemy. If any remarks have fallen from Honourable Members connected with the war effort, and if there is no answer to those queries from these Benches, please don't take it that we have no answer, or that we do not wish to give any answer. We have answers but we think that the public interest demands that we should sit quietly and give no information which can be of use to the enemy. If Honourable Members have any suggestions to make about the means by which we can increase our war effort the Government will, I am sure, be very grateful to them if they will kindly pass on those suggestions to us. If they send them to me I will pass them on to the Department concerned. If they wish to come and see me on the subject I shall be delighted to give them whatever information it is possible

[Malik Sir Firoz Khan Noon.]

to give and my other colleagues will be only too pleased to see them too. In England they have set up a regular organisation for receiving suggestions about the war. I shall pass on any brilliant ideas about how we can win the war quickly to the proper quarters and I am sure the Ministry of Information will be very interested.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : On a point of information, Sir. Does the Honourable Member say that we should not criticize the actions of Government in regard to defence matters ? Is that the practice even in England where there is a department to receive suggestions from the Members of Parliament ? Are not Government criticized in regard to their actions regarding the war publicly by Members of Parliament and other people and not merely for their general policy but also for the conduct of specific campaigns and for dealing with matters which must be of the highest national concern at the present time ? I hope my Honourable friend will agree that on these matters, which are of the most vital concern to us, we should be able to express our opinion.

THE HONOURABLE MALIK SIR FIROZ KHAN NOON : I never said that. What I said was that if any particular question is not answered please don't take it that there is no answer for it ; we think that it is not in the public interest to give you in public the information you need. If any Honourable Member wants any particular information which we can possibly give we will give it to him in private.

THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa : Muhammadan) : In the special circumstances of today with the enemy knocking at our door, it is a pity that we should be sitting here quietly discussing the Budget as if nothing new had happened. The difficult situation through which we are passing requires that both sides of the House—the Treasury Benches in their Maginot Line and we snipers on our trees—should consider it from the viewpoint as to how this Budget affects the war effort. Had it been possible, Sir, for us to make informed criticism we would have done that ; but placed as we are without any responsibility on the shoulders of the sons of the soil for the defence of their homeland, with the trusted representatives of the people denied even information of what is being done, what can you expect but a throwback, a reversion to the old days, old methods and old ideas. I for one do not like it but we cannot help it. The only thing which mainly concerns me is how Rs. 133 crores on defence and armaments is to be spent. I do not say, Sir, that you are extravagant but I do believe that there is ample ground for us to contend that money could be utilized better and in different ways. There is room for honest difference of opinion on the methods by which we should arm ourselves, methods by which we should equip ourselves and in other respects, but we are in a helpless position.

THE HONOURABLE THE PRESIDENT : Why in a helpless position ? Nobody has questioned your right to argue in the way you suggest.

THE HONOURABLE MR. HOSSAIN IMAM : Mr. President, once upon a time the Defence estimates used to cover about 200 pages and this time we have been presented with a bare eight pages. They do not even mention the necessary facts how much is spent on salary and how much on equipment. We do not want details ; we do not know even, Sir, how much is being contributed by His Majesty's Government and how much is being thrown on our shoulders.

We have the bare statement from the Honourable the Finance Member in paragraph 25 of his speech that His Majesty's Government is contributing about three-quarters of our expenses, but the words which he uses are very wide and not precise. He says :—

"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".

This is a prophecy. We have so far no basis for it. But I shall show as I develop my argument, that in actuality we have received from His Majesty's Government very little, if anything, in the 27 months that we have carried on this war and my authority will be the Finance Member and the Honourable Mr. Jones. This is a subject on which no information can be had except from these two sources. It is impossible for us to deal with a subject which is nearest to our heart and therefore we must content ourselves with our old methods.

Sir, last year we had occasion to congratulate the Honourable the Finance Member on having repaid our terminable sterling obligations. This year he has gone a step further and the non-terminable obligations are also being repaid. We are thankful to him for that and Members on this side of the House had better follow the English proverb of not looking the gift horse in the face. Too much criticism of the methods adopted, prices paid and other things ought not to dim the issue. We have been saved from a drain which was a big item in India's disbursements in England. We are thankful to the Finance Member for what he has done, but we expect him to do a little more. The Honourable Mr. Kunzru has pointed out two lines in which he could carry on his good deed further and I should like to suggest one which involves only a book transaction. It will not mean any saving but it will clear your accounts. I refer to the item of deferred war contribution of the old war. This is an item which since 1935 has carried no interest. It is an item which has, to all intents and purposes, not very much troubled him or his predecessors and I hope it will not trouble even his successor. But why retain it? Why not ask His Majesty's Government to validate the action which has been in operation without legal sanction? To all intents and purposes you have written off that debt, but you still have it in your books. It is useless to carry it on.

Then, Sir, I have heard in this House as well as in the other place blame being thrown on His Majesty's Opposition for having always criticised the military budget and by implication it is said that our unpreparedness is due to the niggardly policy of the Opposition—the Congress, the League and the other Parties—who were always critical of the Defence expenditure. I think it is too much to say that on a subject which is not subject to vote, our opinion counted for so much that it did not increase your defence equipment. Defence is not a votable item. When even in votable demands you can and have restored what about non-votable items? Have you ever been actuated by the desire to accept our dictum? It was your own purse string which dictated the terms and not any desire to please us. Even in England you believed in disarmament, Churchill was called a war-monger and he was excluded from the Cabinet. The perpetrators of the Munich Pact—it was the greatest betrayal by any nation of its pledged word—were in power, and you thought that everybody else was as unprepared as you were. You believed in the dictators' words. That was the reason why India was so unprepared as you found. Our opposition was not so much to the quantum of the defence expenditure as to the item of defence expenditure. The Garron Tribunal's Report to which the two representatives of India who were appointed by the Government, appended notes of dissent is ample proof that the opposition was to the composition of the

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Army in India. We only said that the cost of the British personnel in the army, which is four times that of Indian personnel, should not be thrown on the Indian Exchequer. We only wanted that His Majesty's Government should contribute to its cost. To say that our opposition was responsible for a reduced Defence Budget is really stretching the thing too far.

Now, Sir, coming to the details of the Budget, as I said in the beginning I do not find it possible for me to scrutinise all the items in detail, as I used to do, because the over-riding consideration of war is there. But I should like to point out that in 1938-39 the last pre-war year the total net disbursements of the Government of India were Rs. 79·13 crores and for the next year you budget for a gross expenditure of Rs. 187 crores. The defence expenditure has risen from Rs. 46·18 crores to Rs. 133 crores. These are the two glaring differences of the peace and war-time budgets which ought to be kept in view. We do not grudge the provision of this huge amount. We are prepared even to increase it if need be ; but give us a voice in its management, and that voice should not be given to the so-called National Government, but to a National Government which really commands the public confidence. It is not the personal eminence of the man which counts. It is the following which he has in the country which should be the deciding factor whether the Government is a National Government or not. You had Mr. Chamberlain's Government to start with, but why was it dismissed and a new Government formed ? Because you knew that the public was not behind him. But here, if the Honourable Members of the Treasury Benches will excuse me for saying so, there is no one to find out who is the fit person to be entrusted with the Government of the country. The Honourable Mr. Sapru wanted that the National Government should be able to get that support from the public and should have that power behind it which will enable it to embark on venturesome schemes. That you can only have if you have the right type of representative people in the Cabinet. I would like to follow the advice of the Leader of the House and not go into the military detail's, so I suggest to the Honourable the Finance Secretary that item No.73 of his financial statement might now be dropped, due to our helplessness.

Sir, I would like to suggest a war effort in which we can openly co-operate and ask the Government for their help and that is in regard to the self-sufficiency of India in the matter of foodgrains. India with its huge production of foodgrains and other supplies is singularly deficient in rice. We were importing rice to the tune of about Rs. 10 crores every year from Burma. Now with the conditions prevailing in Burma, may I suggest that it would be a real war effort to increase the rice production of India. It will free a great deal of shipping space which you can utilise for other purposes. And it will be easy enough. You have the machinery there and the only thing wanted is money. If the Government would to start with contribute even the rice export duty which they realise to the Imperial Council of Agricultural Research, we might do much. Then they have got the difference between the price of linseed paid by His Majesty's Government, which is an asset in the Commerce Department. Part of that could also be transferred to the Council without causing any drain on your resources. This will be a book transfer only and it will enable India to produce more foodgrains. It will be a real war effort and you should not grudge a little money for that.

Now, Sir, one item in the Budget which has been the subject of debate in both the Houses and which has been attacked, as well as supported, is that to which the Honourable the Finance Member referred in paragraph 42 of his

speech, that is, increased purchasing power and its effect on prices. That is an item on which much can be said and on which there is ground for honest difference of opinion. I think I am correct in saying that it consists of three distinct divisions. First, is there any increase in the purchasing power of the public? Secondly, has it an inflationary effect on prices? Thirdly, if so, how to check it and are the methods you have adopted enough to check it, or is there any need to check it? These are the queries which arise on this subject. I for one cannot deny that the huge disbursement of the Government has contributed to an increased purchasing power in the hands of the public. That is a self-evident truth and it cannot be rebutted. But coming to the second point, whether it has an inflationary effect or not, one has to see three things—whether the price prevailing at the time which you took as the base was an economic price or whether it was a low price due to world causes of depression. Secondly, we have to see what deflationary effort you have already made; and thirdly, we have to find out whether the increase which we find now is such that it should be checked or whether it is a desirable increase in prices. Government have taken three steps to counteract the inflationary effects. Firstly, there are these defence loans. Thereby you take away the money from the public and reduce their purchasing power. You have collected more than Rs. 100 crores from this source. Then there are your open market operations of the Reserve Bank, by means of which you have placed your rupee counterparts of the sterling loans on the market. That too had a deflationary effect. Then, Sir, I hesitate to mention it, there is the Viceroy's War Purposes Fund and other funds of the same nature, which also contribute to restrict the purchasing power of the public. And lastly, is your own action of purchasing sterling in the open market, which also has no deflationary effect. Now with all these contributory factors we have to see whether the increase in prices is such that it requires to be checked. Those who have had some experience of index numbers cannot very easily place their reliance on any particular index number without knowing the weightages which are given for particular items in that index. Now we do not have an ordinary index number by just adding up three items and taking their mean. That is not done. You do a sort of equation with those items, allotting 10 marks to this, 25 to another, and so on. We do not know the basis on which this index has been prepared in Statement No. 1 on page 29. But even supposing that it is a very correct index and due weight has been given to all the contributory factors, even then the fact that in primary commodities the rise up to December was only 37 per cent. in 27 months of war does not show that there has been an undue rise in prices. Especially when we consider that manufactured articles have gone up by 53 per cent. That also shows who is the main person who is responsible for rising prices. The main responsibility rests on the Supply Department and other purchasing organisations of the Government of India. They are increasing the prices, and that is further borne out by the fact that the Cawnpore index number of cost of living has gone much higher than the Bombay and Madras figures. The two ports are not dependent on Government orders alone, their main income is derived from supplies to the public and only a small part from the Government. Therefore the cost of living in these two centres has advanced from 105 to 129, a rise of 24 per cent. in Bombay and from 98 to 121 in Madras; whereas in the case of Cawnpore the price has gone up from 100 to 151 and in the case of Lahore from 120 to 160. That shows who is the culprit, who is increasing prices. It is the Government itself in the Supply Department and other purchase organisations which by paying high prices and thereby cause rise in prices which Government want to curtail and check by devious means of national savings movement. A part of the rise is due to natural causes; there are some things which have to be brought from outside. The price of those things have gone up. You cannot expect the same price to prevail when soda was sold at 1 pice

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and at the price which we are now paying for it. Some of the rise in prices is due to those causes. Some are due to other difficulties—increased freight on coal, increased price for petrol, increased haulage ; those factors also contribute to increase in prices. You cannot say that the whole thing is dependent on inflatory rise in prices. I would like to remind the House of the vast difference between conditions in India and in England. In England everything consumed means a drain on the shipping space. Raw materials, foodstuffs, bulk of everything has to be brought from outside. There the necessity for restricting consumption of goods is great. Whereas in India you will find that a very small percentage of your consumption goods is brought from outside because of restriction you have placed on the import of foreign goods. You have got trading license and so on. All these factors contribute to belittle the importance of reducing consumption in India from the great part they play in England. In England you are called upon to reduce all kinds of consumption. You can here at the best ask them to reduce the consumption of such articles only which are imported and indirectly being purchased by the Government, or are not sufficiently produced. Take the instance of cotton. We have a glut of it. If the Government buys and the public too buys, it does not make any difference, as you cannot consume the whole of it. We are still left with a part of the cotton crop. Look at sugar. *The rise in prices is not due to more buyers being present, but because of the defect of your price control organisation.* Your price control organisation simply does not function. Its advisers are the people who are interested in high prices and you are content as you are usually in your self-complacency, content with asking the advice of those who are benefited by high prices. People who are not interested in high prices are thought to have no knowledge of the affair and they are not consulted. They are just shut out. This is the red-tapism of the Government of India. This is responsible for high prices. Look at paper. You have imposed a price control. It is being evaded every day. You go to the market and the trader says he has not got any paper. If you are prepared to pay a higher price, he will manage to get it for you. These are the ways in which these provisions are evaded. Now for the purpose of bringing down prices you are not dependent on *laissez faire* and the price that the producer may demand. With price control technique as developed in other countries you can dictate. You are afraid of using your power and that is responsible for high price if it is a high price, and it cannot be cured by recourse to the National Savings Movement.

Coming next to the basic question whether there should be a national savings movement or not. I do not say that there is the necessity which England has, but a national savings movement is one which should be supported by us on its merits, and it is a movement which should not be opposed by anybody who has the interests of the country at heart ; because whether it is necessary or not a national savings movement will not harm anybody, neither the Government nor the man who contributes to it. It is pointless to say that it is a movement which should not be started. Coming to the items which you have suggested, my only objection is that they do not go far enough and I should like to endorse the remarks of my Honourable friend Mr. Sapru that the excess profit exemption limit should also be lowered and Rs. 36,000 is too much. I should like to remind the Honourable Mr. Sapru that it was not the action of the Finance Member himself. He was forced to increase it to this limit and against his better judgment.

THE HONOURABLE MR. P. N. SAPRU : I know that.

**THE HONOURABLE MR. HOSSAIN IMAM :** May I ask, Sir, on one subject for specific action? This national savings movement to be really effective must fall on the shoulders of those who are really benefited from it and the suggestion made by the Honourable Mr. Parker that people who are employed in the Departments connected with Supply should also have part of their emoluments paid in defence certificates is a good one. I would go further and suggest that in the case of contracts 10 to 15 per cent. of the price should be paid in the form of defence certificates in all the Supply Department contracts of Rs. 1,000 and over. You will be able to net from 20 to 30 crores of rupees if you adopt this measure.

**THE HONOURABLE SIR SHANTIDAS ASKURAN :** Is there so much profit in this country?

**THE HONOURABLE MR. HOSSAIN IMAM :** Ten per cent. is a small percentage of the profits which they are making in the Supply Department.

**THE HONOURABLE MR. R. H. PARKER :** A very large one as compared with a lot of factories I have known.

**THE HONOURABLE MR. HOSSAIN IMAM :** If it is not possible to draw even 10 per cent. there would be no Excess Profits Tax and no super-tax. Excess Profits Tax pre-supposes there must be excess of profit over what you were making before the war.

**THE HONOURABLE MR. R. H. PARKER :** I am doing so much then?

**THE HONOURABLE MR. HOSSAIN IMAM :** By this national savings movement, you are not making a contribution to the Government. You are simply deferring your purchasing power for future use. You get it back with interest. It is a compulsory savings movement.

I was rather surprised that when we have such a glut of sterling the Reserve Bank should purchase sterling in the open market. The Secretary of State, according to the Finance Member, had Rs. 69 crores of excess this year and Rs. 219 crores are expected to be the excess with the Secretary of State next year. Still the Reserve Bank is in the market and not for small amounts. The Reserve Bank have been operating in the market fairly extensively and getting big slices of sterling from the market.

**THE HONOURABLE SIR JEREMY RAISMAN (Finance Member) :** I hope the Honourable Member has not forgotten that one of the fundamental features of the system is that the Reserve Bank is under an obligation to accept sterling and give rupees.

**THE HONOURABLE MR. HOSSAIN IMAM :** That obligation, Sir, is one which you can suitably amend. The present figure is at a depreciated rate. You are not having your transaction at 1s. 6d. ; the figure you have adopted is 1s. 5-15/16d. which does not show that we have a very strong sterling market.

I was referring, Sir, to page 41 of the Explanatory Memorandum where it is stated that the Reserve Bank purchased something like Rs. 230 crores. This huge amount for the Reserve Bank to purchase has the resultant effect of increasing the interest rate which we have to pay on our borrowings. If the money were to remain in India instead of in sterling interest rate would be lower.

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Now, Sir, that I am concluding, I should like to deal with Income-tax. I do not find Dr. Kunzru here—but I think I would be doing an injustice to the Honourable the Finance Member if I did not state that the taxation which he has imposed on the small incomes below Rs. 2,000 is really not taxation at all. It is really asking the people who can ill-afford to be spendthrift to save something for the rainy day. If you would look at paragraph 43 of his speech it will show that if a man has got a pay of Rs. 145 a month and he deposits the magnificent sum of Rs. 40 a year he will not be taxed. Do you believe that even in India we are so hard pressed that a man earning Rs. 145 a month cannot pay by Rs. 3-8-0 a month? It is absurd. I was led to think that he has been tender on the higher paid people, but one of my colleagues who is unfortunate enough to pay lakhs and lakhs in income-tax will bear me out that the Honourable the Finance Member has been harsh enough on him. For instance, I should like to quote one figure only, not the figure of a man paying about 80 per cent. I am now referring to the Honourable the Finance Member's own deductions. He will be paying something like Rs. 200 a month, or over Rs. 2,000 a year more than what he was paying without his present Budget. As it is he is already subject to an income-tax of about Rs. 15,000 and now he will be subject to Rs. 18,000.

**THE HONOURABLE SIR JEREMY RAISMAN :** I must correct the Honourable Member. I am already subject to a higher figure than the last figure named and I shall be subject to a much higher figure still.

**THE HONOURABLE MR. HOSSAIN IMAM :** That was due to the fact that for a part of the year you were taxed at Rs. 80,000 the old rate of salary but what will be the basic rate of salary next year?

Now, Sir, what is His Majesty's Government's contribution towards the Defence expenditure in India? My authority, Sir, for stating that it is very small is the Honourable the Finance Member himself, who at page 41 of the Explanatory Memorandum states that sterling payments by His Majesty's Government up to January, 1942 amounted to Rs. 196 crores. If you deduct from it the amount which we have received as payment for supply of goods, particularly by the Supply Department and other Departments, we will come to the conclusion that less than Rs. 45 crores had been contributed by His Majesty's Government in two and a quarter years for our war expenses proper although the Honourable the Finance Member in a prophetic vein says in the beginning of his speech, in paragraph 25 I think, that approximately one-fourth of the Defence expenditure is charged to the Indian revenues, but that is a prophecy. I go to the actuals, and although the Honourable Member has—

**THE HONOURABLE SIR JEREMY RAISMAN :** May I point out to the Honourable Member that these prophecies are based on the rate of expenditure already occurring from day to day. It will not get less.

**THE HONOURABLE MR. HOSSAIN IMAM :** I shall wait for his figures next year and see page 41 of the next year's Budget Speech to know how much he has received, and no one will be more pleased than I, if I find that he has collected from His Majesty's Government more than I thought he was collecting.

There was an unfortunate mention by my two Honourable colleagues about the arms being manufactured in India, and on that subject I should like just to state that this information does not seem to me to be very correct. We had so much surplus that we were giving to other people ; but the policy of the Government of India is one on which we cannot agree. The licences which are granted to the people are being curtailed and instead of granting more licences to those who could be relied upon to make intelligent use of their guns the policy in the countryside of the Governors—who are ultimately responsible to the Viceroy in the absence of a popular Ministry due to the functioning of section 93 this ultimate responsibility comes down indirectly to the Government of India—the policy of restricting licences is not one which should be commended. Sir, I find that the Budget on the whole in the condition in which we are, although it does not reveal anything to us, although it does not give us any information of what is being done is not so bad as it has been painted, and neither is it so rosy as some people are inclined to think.

THE HONOURABLE SIR JEREMY RAISMAN (Finance Member) : I agree with the Honourable Member who has just spoken in what he said at the beginning of his speech that there is something incongruous in sitting and debating on the details of the Budget at a time such as this. To me particularly that thought occurs since I have the task of listening to speeches both in another place and here and of trying to evolve the answers to various types of arguments some of which are entirely opposed to others. There are some who criticise the Budget because it is harsh ; some think that it has let the taxpayer off too lightly. Some feel that taxation on the poorer classes is excessive ; others who dare not say the opposite complain that taxes which might have been employed have not been employed, and that type of criticism usually proceeds from the individual who means that we should have increased taxes like the salt tax or other taxes which fall on the poor. These, although they are inclined to question the courage of the Finance Member in not imposing such taxes, themselves usually have not got the courage to mention them by name. But, on the whole, Sir, I am glad to be able to say that both here and in another place the general tone of comment on the Budget has been restrained, that Members have recognised the difficulties of the situation

4 P.M. with which we are faced and the fact that it is a problem as much for the people as for the Government of this country. I do not wish to traverse the observations of Honourable Members who talked about a National Government and the change which could be wrought by political transformation. I am concerned with the steps which any kind of Government could take if it found itself in a position such as this, and with due respect to the Honourable Mr. Sapru, I would remind him that a National Government of the kind which he contemplates may often be more tender in regard to certain classes of the community than a Government which has not been returned by the votes of any particular party or class and which deals with its problems from a purely objective point of view and with regard to what it feels to be its duty. However, that is merely by the way. As I say, it is not my business to enter on the political argument. But I was surprised to find that the Honourable Mr. Sapru himself, like the Honourable Dr. Kunzru, having said that a National Government might call for heavier sacrifices, then proceeded to question the wisdom or fairness of carrying our taxation, or taxation *cum* savings proposals as low as to incomes of Rs. 1,000 a year. I should have thought that on his line of argument, the sacrifice in a country such as India might well be carried to that level or even lower, because it cannot be argued that in this country persons with an income of between Rs. 1,000 and Rs. 1,200 a year belong to the poorest classes. I admit that they belong to a class which is faced with difficulties, and if they are salaried persons, then they are subject

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especially to the difficulties which all recipients of fixed incomes must suffer in times when prices are moving sharply upwards. Nevertheless, the actual amount which persons in that class are required to set aside is something less than a rupee a month. It is only about 12 annas, as far as I remember, or something of that order, and even as a symbol and as the beginning of a salutary process I consider that it has great value. But, of course, it is clear that to any point to which a scheme of this kind will be carried, there will be room for argument that at the bottom end of the scale there were persons whose resources were too limited to be made the subject either of taxation or of a savings scheme such as this. My Honourable friend Mr. Hossain Imam, I think, gave the right answer to that argument.

The last speaker entered on a fairly detailed examination of the economic problem, of the rise in prices, higher purchasing power and so on. This problem is so complex and there are so many factors that it is exceedingly difficult to present the relative operative elements in it. It is hardly possible to say that the rise in prices came first and then the extra purchasing power, or *vice versa* that there was too much money and therefore prices began to rise, or again, there is a third line, a much more probable course in time of war, that the quantity of goods to be purchased began to get less whereas the amount of money remained the same or became greater and therefore prices rose. All these explanations are possible. But where I join issue with the Honourable Mr. Hossain Imam is when he somewhat dramatically discovers the main culprit in all this business. It is, he finds, the Government itself. Well, Sir, I make no attempt to disguise that it is the operations of Government in war time which tend both to increase the purchasing power of the people and to reduce the volume of goods for private consumption and therefore tend to cause the rise in prices. How otherwise could they get on with the war? It is the business of the Government to raise, feed, house and equip a large army—an army of over a million men. The Honourable Mr. Sapru said it should be much larger, and if it were—and I have no doubt that it will be much larger—then the argument applies with even greater force. The Government is bound to step into the market and obtain services and goods. The Government is, therefore, says Mr. Hossain Imam, the main culprit. Of course the Government could refrain from being the main culprit by taking no action whatever to get on with the war. But is that what my Honourable friend desires? The situation surely is this. To the extent that the Government is bound to call upon the available supplies of goods and services, to that extent at least private consumption of goods and services must be reduced, and that is where the difficulty comes in and that is where the possibility of inflation arises, because, the suppliers of goods and services have to be paid, and Government often has no time when it has to get on with the war to argue with the suppliers. It must be able to call forth ready and willing supplies of the goods and services it requires. So it has to pay for them and so more money goes out. But the goods and services have been withdrawn and there are less available for private consumption. Unfortunately the private consumer still has to go into the market; he wants to maintain his old standards of consumption, and if he is earning more money he wants to improve his standard, and that is where the difficulty arises. It is not possible to bring home these facts to every man in the community. If it were possible, it might be feasible for some kind of self-denying frame of mind to grow up and for people to realise that the best thing they could do is consciously to adjust their standards, their claims for consumable goods and to save the money for a more suitable time.

The Honourable Mr. Sapru said that certain parts of my Budget were an imitation of Mr. Keynes' ideas. Well, Sir, Mr. Keynes first popularised these ideas in England, but the elements in this type of problem have been familiar features of any war time economy. At any time since man began to think about these things, even in the days of ancient Greece, they realised, in a beleaguered town for instance, that when supplies go short the money which it has for the fewer and fewer goods available will be more and more excessive and that until the town can be relieved the best thing to do with the money is to put it away for the time being. These are familiar and simple aspects of a fundamental economic problem which arises in every war. But Mr. Keynes brought them to the forefront in England. Ideas of this kind have been familiar and have been applied in countries like Germany even before the outbreak of war and certainly during the war. They are manifestly the only way in which a community can adjust itself to a war time situation.

Now several Members have touched on the question of one important way in which some relief may be obtained and that is by the increase in the production of food. The increase in the growth of foodcrops. Well, Sir, that is a point of view with which the Government entirely agree. It is a matter to which they are devoting active consideration. I am glad to say that my Honourable colleague in the Department of Education, Health and Lands has already under contemplation and is formulating active steps to stimulate the production of food crops. The problem of a food and fodder production drive, both to increase the total supply of food and fodder in India and to attain some degree of regional self-sufficiency in case of a partial or local breakdown of the transport system is being very actively pursued by the Government of India. But of course we have to get the provinces to assist. The provinces are peculiarly in touch with these matters and are in a special position to deal with this kind of problem, and it is impossible for the Centre sitting here to implement a policy like that by its own unaided resources. I do not mean monetary resources; I mean its resources of administration and advice. Therefore the advice and assistance of the provinces are now being sought. I attach myself the greatest importance to action of this kind. I feel that in the matter of food it is imperative that everything that is possible should be done to increase the necessary supplies, so as to avoid the dangers to which the Honourable Mr. Sapru rightly drew attention.

Now several Members have harked back to the old question of why we were not prepared, why our defence preparations in the past were inadequate. But the Honourable Mr. Hossain Iman has executed a most supple and subtle manoeuvre. He having been one of those who attacked the defence budget every year has managed to range himself on the side of the angels and has managed to find that it was still the fault of the people who wanted to increase defence expenditure and not of those who kept up a continuous pressure of the most intense kind against any increase in defence expenditure. Well, Sir, I am afraid he is a little too clever. You really have got to get back to the true responsibility in these matters. The responsibility of the governments in power in various countries is undoubtedly there. But the responsibility of those with any kind of influence who continually subjected the governments—and I am not talking of India only but all countries—to pressure, to hostile criticism, and who urged them along a continuous course of disarmament is at least equally great. In fact it is greater in so far as it was virtually impossible for any individual mind in any of the countries concerned to convert the great mass of the people to a realisation of the danger in which they stood, and in so far as the number of people in opposition, so to speak, and the number

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of public critics was greater, I would say that the responsibility of the latter as a class is larger and the sin should weigh more heavily upon them than on the few men who were actually in power. However, that is a fruitless argument. It is useless to attempt to allot blame. But there is one particular form of blame which I think belongs especially to what I may call the Opposition. The great need it seems to me of the period immediately before the war was to experiment with new types of formations. The great need was to turn cavalry, for instance, into armoured formations, motor borne formations, tank formations, and so on. Now the first step in that change-over is a very expensive one, because the production of new types of armoured vehicles and so on is a very expensive matter. Well, in my opinion—that is my own personal opinion—it was the intensity of the pressure for retrenchment and the intensity of the resistance to expansion in defence expenditure which made the existing service departments so conservative and caused them in turn to resist the ideas of those comparatively few elements in the services who were forcing a policy of mechanisation and modernisation upon them ; and in the case of India it was not until I think the end of the year 1938 when Lord Chatfield and his Committee came to India that the problem of modernisation was faced after all and even then it was only by a most drastic and what according to our present ideas would be an excessive reduction in the size of the total force that provision could be made for mechanising it, so that I am afraid that the responsibility of the Honourable Mr. Hossain Iman and his friends is very great indeed. It is not merely quantitative so to speak, it is qualitative.

THE HONOURABLE MR. HOSSAIN IMAM : Greater than yours ?

THE HONOURABLE SIR JEREMY RAISMAN : Yes, greater than mine.

The Honourable Mr. Sapru disapproved of the increase in postal charges and he saw no justification for utilising a public utility as a tax-gathering agency. I join issue with him there on the question of principle. Why should it be claimed that in the few cases in which Government happens to be the owner of a commercial concern, at a time when every increase in income is necessary in order to enable it to get on with the main object of defence, Government alone should refrain entirely from pursuing the ordinary commercial course of increasing its charges when the traffic will obviously bear those charges ? But Government is in an even stronger position at the present time because in the case of many of the services in the Posts and Telegraphs Department, the position is that the demand is already embarrassing in volume just as it is in the case of the railway services and therefore even if there were a certain diminishing return Government would not regard that result as entirely unsatisfactory. In the case of telephones, for instance, we have definitely reached a stage at which we wish to deter new custom because we cannot comply with all the demands that are being made upon us. It is at a time like this when Government can do with all the money which it can raise and when the amount of service which it can render is limited in relation to the demands with which it is faced that the Government is surely justified in increasing its charges. I do not say that the argument about supply and demand applies to the stamp on the envelope. That I am afraid must be regarded as a simple matter of increasing the charge in order to get more money from customers who I believe are able to pay it. It is surely a rather far-fetched argument to say that the poor villager who usually uses a postcard when he wants to send a

secret message or a confidential message will have to buy an envelope which will cost him three-quarters of an anna more than his postcard and therefore will suffer great hardship. It seems to me that that kind of criticism springs from a desire merely to find some conceivable ground on which to criticise. It is not one which carries any conviction at all and my own feeling when I bear arguments of that kind is that I must have chosen a very good step if that was all that could be said against it.

I understand that Dr. Kunzru raised a question about the way in which we were treating the articles which we received under the Lease-Lend arrangements from the United States of America. Inevitably the exact nature of the obligations which we undertake by accepting this assistance remains to be defined in the future. As I said in another place, the details have been left to the good sense of the future and in the light of the experience which was gained in the last war of the treatment of these international obligations we may hope that mankind have learnt a lesson and that they will not attempt the impossible. But meanwhile we are in no position to look a gift horse in the face as I think my friend Mr. Hossain Iman said. It is a new form of an old proverb. We are only too glad to accept the assistance which the great American Confederation is prepared to provide for countries which are fighting against aggression. But it is suggested that the treatment of these receipts might be different and that it would make a considerable difference possibly to the deficit with which we are faced if we took the value of Lease-Lend articles, if we took full credit to revenue for the value of the supplies. Well, the difficulty is in the first place that it depends on the ultimate use of those supplies who is to receive the credit. Supposing for instance that a hundred tanks arrive in India from America and suppose that a certain military unit is equipped, trained, in the use of them and ultimately goes overseas with the equipment. Well, in a case like that the ultimate charge for that unit would be on His Majesty's Government and therefore the credit would go to His Majesty's Government. We cannot therefore assume that the whole of what comes to India in the first place under Lease-Lend would be creditable to our accounts. In fact it is reasonable to assume that the proportion for which we would ultimately receive credit would be similar to the proportion of the total defence expenditure in India which the Government of India bears. In that case it would only be a fraction of the figure which I mentioned in my Budget Speech and it would certainly do nothing to relieve the taxpayer of the day. For I must remind the House that the task of budget-making, of framing the estimates, grows more and more difficult with every month that the war goes on. Even in the Finance Department we are not prophets. We can foresee and I would remind my Honourable friend Mr. Hossain Iman that we can prophesy that certain types of expenditure will not grow less while the war goes on and we know that the scale of expenditure by His Majesty's Government in India is already at a pitch which justifies the figures which we have included in the Budget. We know that that must go on but, as I say, we are not prophets and we cannot forecast the course of world events. We have to take a view and, what is more we have to take it sometime before the Budget is actually presented to the House and to the country. Now in taking such a view we naturally base our estimates on the existing state of affairs and it is clear that the tendency of Defence expenditure is to expand as the year proceeds and I cannot comfort myself with the thought that revenue will naturally expand correspondingly. Therefore the deficit as foreseen at the beginning of the year is not likely to be greater than the ultimate deficit which is brought to account. In these circumstances it is, I suggest, justifiable to treat a matter like the Lease-Lend receipts in the way in which we have treated them, because it is highly improbable that the ultimate

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deficit would be less than that which we envisage now even if we were to give ourselves credit in this way.

The Honourable Sir Shantidas Askuran suggested that our accumulations of foreign exchange of sterling should be utilised for the purchase of gold. I take it he meant after we have carried out the repatriation of our external debt. Well, Sir, there are difficulties about that and they are intimately connected with the subject to which I have just referred. It must be remembered that the basis of the assistance afforded by America to the democracies, the basis of the Lease-Lend arrangements—one of the main reasons for them—is the inability at the present time of the democracies to pay America fully either in dollars or in exports or even in gold. If America could be fully paid in gold it would be unnecessary for her to embark on the heavy expenditure on Lease-Lend. It may be taken that the general position is in regard to all the countries of the sterling group—in regard also to Russia, in regard to China—that all these countries are in the position in which if they could make payments to America they ought to do so. Now at a time like the present it is obviously inappropriate to suggest that such countries should embark on the opposite process which would be in effect to receive payments from America. In other words, America would be giving you tanks, guns and aeroplanes and would also be supplying you with gold. America does not require sterling and America does not require rupees, except to the extent to which she makes purchases in this country, but those purchases are already counterbalanced by the purchases which we make in America. In other words, we have not got a favourable balance of trade with America, and an even more important point is that the whole of the British Commonwealth of Nations has not got a favourable balance with America. On the contrary it has an unfavourable balance and it is because of that that the Lease-Lend arrangement is necessary in order to enable America to continue to supply to the British Commonwealth the defence articles—which I think is the technical term used in America—which they need in order to prosecute the war with the utmost efficiency, and that is why I cannot hold out—as I see the situation it is impossible to hold out—to my Honourable friend the hope that we might utilise our sterling accumulations during the war in order to acquire more gold. Actually, of course, the gold already existing in our central banking reserves is quite a large amount compared to that in most countries other than America. Although it is valued under the Reserve Bank Act at Rs. 44 crores it is already, even at the controlled price which applies in the United Kingdom, worth at least double that amount—Rs. 88 crores—and that is quite a respectable proportion of the cover which is provided to our note issue.

The Honourable Mr. Parker raised a point I think in connection with deposits and the refundable elements in the taxation of the lower scales of income. In the first place, I think, he suggested that in the case of incomes between Rs. 1,000 and Rs. 2,000 arrangements should be made for monthly deductions and he made another suggestion regarding the possibility of protecting these deposits against a legal charge.

As regards the first point—whether it was raised by Mr. Parker or not I cannot say—it is, of course, our intention that the small salaried man should be enabled to make his small monthly savings in the same way as salaried people now pay their tax monthly. As regards the protection of the deposits against legal charge, that is a matter on which I am unable to say anything

at the moment although I shall have it examined. In the case of Provident Funds, they are protected and that is the analogy which the Honourable Member has in mind, I think.

THE HONOURABLE MR. R. H. PARKER : There are parts of salaries also which cannot be charged, are there not ?

THE HONOURABLE SIR JEREMY RAISMAN : That is a matter which I shall have examined.

There is just one other detailed point which I might deal with before I sit down, and that is the criticism of the Honourable Mr. Sapru of the excess profits tax exemption limit of Rs. 36,000.\* The Honourable Mr. Hossain Imam rightly pointed out that in the first form of the Excess Profits Tax Bill which I brought before the Legislature, the exemption limit was a good deal lower. As far as I remember, it was either Rs. 20,000 or Rs. 25,000, and it was in response to pressure that I agreed to raise it to Rs. 36,000, which incidentally disposes of Mr. Hossain Imam's theory that the Government does not do anything in response to pressure.

THE HONOURABLE MR. HOSSAIN IMAM : It is a voted item, Sir.

THE HONOURABLE SIR JEREMY RAISMAN : In this case we did something very significant. One of the reasons why I was prepared to accede to this demand was that I was impressed with the formidable nature of the administrative burden which my Departments would have to take on with the introduction of this new tax, and it has indeed proved to be a matter requiring a good deal of labour. At the present moment the total number of assessees to excess profits tax is probably only of the order of between 3,000 and 4,000. It may even be less than 3,000—those who actually are ultimately assessed to the tax. Even so, the labour involved in assessing this tax and the degree of skill required in order to bring all the accounting considerations to a focus and settle the assessment is extremely great and, as Honourable Members probably know, it is only comparatively recently that the work has been able to reach the tempo which is necessary in order to secure the revenue which we should derive from this very important tax. So we have hardly reached the stage at which we can take a step forward in regard to the excess profits tax which would bring a large number of additional assessees under the operation of the tax. Nevertheless, I agree with my Honourable friend that there is great force in his contention and there is much to be said for extending the tax to a smaller scale of income. The arguments for the application of the tax to incomes below Rs. 36,000 are quite strong. In theory, in fact, there is nothing to differentiate the case of a small merchant from that of a large company. But, in practice, unfortunately, in this imperfect world we have to take account of a large number of administrative considerations and human details and we often have to give up in practice objects which in theory are highly desirable.

Well, Sir, I think I have traversed most of the points which I could recall to mind and I trust that I have dealt with matters on which Honourable Members wished to ascertain my views. I agree with my Honourable colleague, the Leader of the House, that the discussion has been interesting and, as usual, set on a high level, and has shown a full sense of the responsibility which is due to these problems at the present time.

The Council then adjourned till Eleven of the Clock on Friday, the 6th March, 1942.