

Saturday, 27th February, 1943

COUNCIL OF STATE DEBATES

(OFFICIAL REPORT)

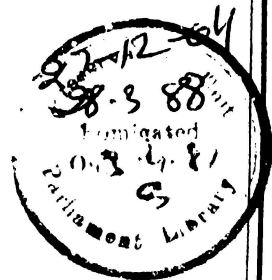
VOLUME I, 1943

(15th February to 3rd April, 1943)

THIRTEENTH SESSION

OF THE

FOURTH COUNCIL OF STATE, 1943



PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI
PRINTED BY THE MANAGER, GOVERNMENT OF INDIA PRESS, NEW DELHI
1943

INDEX

PAGE(#).		PAGE
Monday, 15th February, 1943—		
Members Sworn	1	
Questions and Answers	1—9	
Notices of Motions for Adjournment	9—13	
Statements, etc., laid on the table	13—22	
Messages from His Excellency the Governor General	22	
Committee on Petitions	22—23	
Congratulations to His Excellency the Commander-in-Chief on his promotion to Field Marshal	23	
Governor General's Assent to Bills	23	
Standing Committee for the Department of Information and Broadcasting	23—25	
Death of Sir Muhammad Yakub	25—26	
Presentation of the Railway Budget for 1943-44	26—31	
Motion for Adjournment <i>re</i> Unconditional release of Mr. Gandhi	31—46	
Tuesday, 16th February, 1943—		
Questions and Answers	47—50	
Notice of Motion for Adjournment	50	
Allotment of quarters to Members of the Council of State	51—52	
Resolution <i>re</i> Excess Profits Tax Act, 1940—Negatived	52—59	
Resolution <i>re</i> Co-ordinated policy in respect of wheat and other food-stuffs— <i>To be continued</i>	59—76	
Resolution <i>re</i> Ordinances promulgated since the outbreak of war—Moved	76—77	
Motion for Adjournment <i>re</i> Restrictions imposed on the <i>Hindustan Times</i> —Negatived	77—85	
Appendix	86	
Monday, 22nd February, 1943—		
Protest by the Progressive Party against the policy of Government in connection with the fast of Mr. Gandhi	87	
Questions and Answers	87—104	
Information promised in reply to questions laid on the table	104	
Statements, etc., laid on the table	115	
Bills passed by the Legislative Assembly	115	
Delhi Muslim Wakfs Bill—Presentation of the Report of the Joint Committee	116	
Code of Criminal Procedure (Amendment) Bill—Petition laid on the table	116	
Statement <i>re</i> Quarters for members of the Council of State	116	
Standing Committee for the Department of Supply	116	
General Discussion of the Railway Budget, 1943-44	117—135	
Standing Committee for the Department of Information and Broadcasting	135	
Death of Sir James Taylor	135—136	
Wednesday, 24th February, 1943—		
Members Sworn	137	
Questions and Answers	137—141	
Resolution <i>re</i> Co-ordinated policy in respect of wheat and other food-stuffs— <i>contd.</i> —Adopted	141—143	
Resolution <i>re</i> Number of Ordinances promulgated since the outbreak of war— <i>contd.</i> —Withdrawn	148—159	
Wednesday, 24th February, 1943—contd.		
Resolution <i>re</i> Foodstuffs—Moved	159—1	
Resolution <i>re</i> Vesting of control over Governors of Provinces in the Governor General in Council—Negatived	160—1	
Saturday, 27th February, 1943—		
Bills passed by the Legislative Assembly laid on the table	1	
Presentation of the General Budget for 1943-44	175—1	
Tuesday, 2nd March, 1943—		
Member Sworn	1	
Questions and Answers	193—2	
Notice of Motion for Adjournment	2	
Resolution <i>re</i> Foodstuffs—Negatived	204—2	
Resolution <i>re</i> Sterling resources and expansion of currency—Adjourned	231—2	
Statement of Business	2	
Saturday, 6th March, 1943—		
Questions and Answers	237—2	
Statements, etc., laid on the table	243—2	
Bills passed by the Legislative Assembly laid on the table	24	
General Discussion of the General Budget for 1943—44	245—2	
	261—2	
Standing Committee for the Department of Supply	24	
Wednesday, 10th March, 1943—		
Questions and Answers	277—2	
Resolution <i>re</i> Sterling resources and expansion of currency— <i>contd.</i> —Adopted	286—3	
Indian Income-tax (Amendment) Bill—Introduced	3	
Resolution <i>re</i> Rationing of paper—Withdrawn	303—3	
Thursday, 11th March, 1943—		
Statements, etc., laid on the table	3	
Standing Committee for Roads, 1943-44	3	
Central Advisory Council for Railways	3	
Motor Vehicles (Amendment) Bill—Considered and passed	316—3	
Government Savings Banks (Amendment) Bill—Considered and passed	3	
Indian Railways (Amendment) Bill—Considered and passed	316—3	
Aligarh Muslim University (Amendment) Bill—Considered and passed	3	
Code of Civil Procedure (Amendment) Bill—Considered and passed	3	
Indian Penal Code (Amendment) Bill—Considered and passed	320—3	
Coffee Market Expansion (Amendment) Bill—Considered and passed	3	
Delhi Muslim Wakfs Bill—Considered and passed as amended	325—3	
Statement of Business	31	
Saturday, 20th March, 1943—		
Bills passed by the Legislative Assembly laid on the table	32	
Statement of Business	32	
Wednesday, 24th March, 1943—		
Members Sworn	33	
Questions and Answers	331—34	
Code of Criminal Procedure (Amendment) Bill—Presentation of the Report of the Committee on Petitions	34	

COUNCIL OF STATE

Saturday, 27th February, 1943.

The Council met in the Council Chamber of the Council House at Half Past Five of the Clock, the Honourable the Chairman (Sir David Devadoss) in the Chair.

BILLS PASSED BY THE LEGISLATIVE ASSEMBLY LAID ON THE TABLE.

SECRETARY OF THE COUNCIL : Sir, in pursuance of rule 25 of the Indian Legislative Rules, I lay on the table copies of the following Bills which were passed by the Legislative Assembly at its meeting held on Thursday, the 25th February, 1943:—

1. A Bill further to amend the Indian Railways Act, 1890 ;
2. A Bill further to amend the Aligarh Muslim University Act, 1920 ; and
3. A Bill further to amend the Code of Civil Procedure, 1908.

PRESENTATION OF THE GENERAL BUDGET, for 1943-44.

THE HONOURABLE MR. C. E. JONES (Finance Secretary) : Sir, I have the honour to present the revised estimates of revenue and expenditure of the Governor General in Council in respect of subjects other than railways for the year 1942-43, and the corresponding estimates of revenue and expenditure for the year 1943-44.

2. The year which has elapsed since I presented the budget estimates for 1942-43 has been a period of grave anxiety and intense strain. Enemy forces advanced in Egypt to within a comparatively short distance of Alexandria, in Russia to Stalin-grad and deep into the Caucasus, and through Burma to the Eastern land frontiers of India, while the offensive operations of the Japanese navy and fleet air arm extended to our near neighbour Ceylon. In the face of these imminent threats of invasion by land and sea, and with large areas of the country brought within the range of air attack, defence preparations, both active and passive, had to be speeded up to the utmost possible extent. This involved more intensified demands on the productive capacity and economic resources of the country, greater pressure on an already over-worked transport system, and an acceleration of other developments characteristic of a war-time economy such as expansion of currency and rise in prices to which I shall have occasion to refer later. Just at the time when the outlook was at its very blackest was launched an organised campaign of civil disturbance throughout the country, of which the most prominent feature was systematic sabotage and dislocation of communications, which for a time considerably accentuated the difficulties with which the country was faced. Even Nature contributed more than its usual quota of calamities in the form of floods, cyclones and drought.

3. Latterly, however, the whole situation has improved in dramatic fashion. The United Nations are now in control of practically the whole of North Africa. Our Russian allies, by a series of victories which has evoked the admiration of the world, have almost cleared the Axis troops from the areas of the Don, the Donetz and the Caucasus, and the strength of their advance still continues. The Japanese have suffered serious reverses in the South-West Pacific, while offensive action has been initiated on the Burma front both by land and in the air. Hopes of a decisive victory in the not too distant future are running high, confidence is reviving, and the internal situation shows signs of marked improvement with the growing disinclination of the country to permit itself to be held to ransom for political purposes. While it is true that this improvement is bound to be reflected in the economic sphere, we cannot shut our eyes to the fact that the road to final victory will in all probability be both long and hard. For a considerable time to come the economy of India, in common with that of the entire world, will be subjected to the most severe stresses and strains. Shortages of goods, both capital and consumer ; shortage of shipping ; rigid control of international trade and exchange ; over-burdened transport ; these are the conditions which we must expect to continue for a while. Equally foolish would it be, though, to overlook the favourable factors which undoubtedly exist. Actual warfare, with its attendant damage, destruction and human suffering, has not yet taken place on Indian soil, and, with the great improvement which has of late been effected in the country's defences, the chances of its doing so have receded visibly. Food production shows an appreciable expansion, crop prospects are good, and the rise in agricultural prices benefits the ryot, not only by increasing his present

[Mr. C. E. Jones.]

purchasing capacity, but also by reducing the real burden of his indebtedness. The industrial potential of the country and its skilled technical personnel are increasing rapidly, and industrial employment is at its peak. India's economic condition has been enormously strengthened through the virtual extinction of her external debt and the growth of her external resources. It is surely no exaggeration to say that India has more solid ground for encouragement for the future, whether on a short or on a long view, than has many another nation in the world today, belligerent or neutral.

4. The final results for the financial year 1941-42 can be very briefly summarised. Total expenditure worked out very close to the revised estimate, an increase of Rs. 1,48 lakhs in the cost of Defence Services being almost counterbalanced by a saving of Rs. 1,11 lakhs in the civil expenditure. Revenue however improved by no less than Rs. 4,95 lakhs, to which Customs contributed Rs. 1,89 lakhs and the Railways Rs. 1,05 lakhs. Thus the revenue deficit, which in the revised estimates was expected to be Rs. 17,27 lakhs, proved in the final accounts for the year to be no more than Rs. 12,69 lakhs.

5. Coming now to the prospects for the current financial year 1942-43, I must first make mention of the fact that the rules of accounting require that the sums received as premia in connection with the War Risks Insurance Schemes should pass through the revenue account on their way to final credit in the Insurance Funds, which appear in the Deposit section of the accounts. As these premia receipts are expected to exceed the budget provision of Rs. 3,24 lakhs by as much as Rs. 15 crores, the revised estimates of revenue and expenditure alike will, for this reason alone, show an increase over the budget figure of that amount.

6. Total revenue during the current year is expected to amount to Rs. 178.76 crores as against the budget estimate of Rs. 152 crores. This represents an improvement of Rs. 26,76 lakhs, or Rs. 11½ crores apart from the special factor to which I have just referred. Although our estimates for Customs receipts had been framed on the assumption of a considerable drop in imports owing to the extension of the war to the Pacific, the fall in revenue has been greater than was allowed for and we now place the revised estimate for Customs yield at Rs. 4.35 crores below the budget figure of Rs. 35.35 crores. On the other hand we anticipate that Income Tax, including Corporation Tax and Excess Profits Tax, will give us Rs. 14 crores more than our Budget estimate, of which ordinary Income Tax, including the Central surcharge accounts for Rs. 7 crores and Excess Profits Tax Rs. 7 crores. These improvements reflect the continued war-time prosperity of industry and the increasing efficiency which grows with experience of the staff which administers the Excess Profits Tax Act. The steady expansion of commercial and governmental activities is also responsible for an increase of Rs. 1,35 lakhs in the net contribution to Central revenues from the Posts and Telegraphs Department. The Railway contribution has been maintained at the original budget figure of Rs. 20.13 crores, notwithstanding an anticipated improvement in the Railway surplus for the current year of Rs. 8½ crores, for the reasons which have already been explained to the House in the Railway budget.

7. The only other increases in revenue in the current year which are worthy of mention are Rs. 1½ crores from Salt, the result of unexpectedly heavy issues probably occasioned mostly by speculative hoarding, and Rs. 2.20 crores under Currency and Mint. Of the latter figure Rs. 77 lakhs is the result of an improvement in the surplus profits of the Reserve Bank of India which accrue to Government. The balance of Rs. 1.43 crores represents mainly an increase in the profits from the circulation of bronze and nickel coin taken to revenue, and a word of explanation regarding this is due to the House. Honourable Members may remember the decision, which was announced two years ago, to take to revenue from 1941-42 onwards an average figure of Rs. 45 lakhs from the profits on the circulation of small coin, and to credit any balance of profit in excess of that sum to a suspense account. This arrangement was designed to even out the receipts over a series of years, and thus avoid the embarrassment of a substantial loss in any future year when the return of small coin might be heavy. In the abnormal small coin position which now exists that arrangement has ceased to be appropriate. The output of small coin is so vast that profits are exceptionally high, but Mint expenditure has also had to be increased

considerably to maintain the high level of production. Adherence to the decision previously taken would thus involve the anomaly of showing in the revenue account a profit on small coinage less than the actual minting charges. In the circumstances it has been decided from this year onwards to take to revenue a *net* sum of Rs. 45 lakhs over and above the net Mint expenditure for the year. This will still leave to credit of the suspense account a balance ample to meet the shock of any foreseeable return of small coin.

8. We can now proceed to consider the question of expenditure in the current year, 1942-43, in which connection the Defence Services inevitably come first because of their magnitude and importance. The unfavourable turn of events in the early part of the year which I summarised in my opening remarks made it very clear that substantial increases in all three services (but especially so in the case of the Air arm), beyond those contemplated when the estimates for the year were framed, were immediately necessary if India were to be protected from the grave and imminent threats to her security which had developed. Impending movements of forces from India overseas were cancelled and additional forces brought into the country. On the army side the rate of recruitment was stepped up to about 70,000 recruits a month. Training facilities were multiplied for each of the various types of units, and large scale improvements to those communication systems which were of vital importance to the Defence services were put in hand under high priority to the charge of the Defence estimates. A steady stream of equipment for the additional troops has been flowing into the country from the increased production of the United Nations, but the provision of accommodation for housing the additional troops, and for the storage of the equipment and stores required for our greatly expanded army, presented a most formidable problem. Nevertheless the work was pushed forward at maximum intensity by bringing to the assistance of the Military Engineering Services such staff as could be spared from the Central and Provincial Public Works Departments, by raising Civil Pioneer Battalions and by borrowing labour from every available source. As a result of these combined efforts we have very reason to hope that in the coming year 1943-44 the land forces in India will have reached a stage at which they can be regarded as reasonably adequate to meet all the demands likely to be made upon them for the defence of India. May we not also hope that, in view of the events of the past few months, the role of at least some of these troops, which has hitherto been that of defence against threats of invasion, will be exchanged for offensive action alongside the forces of our Allies ?

9. A corresponding expansion has been, and is being, undertaken on the Naval side. A substantial number of war vessels completed since the outbreak of war is now in commission. An increasing number of these vessels is engaged in the protection of convoys, and I would like here to pay a tribute to the recent heroic exploit of one of these ships which resulted in the destruction of a very much larger and better armed enemy vessel. The strength of officers and ratings in the Royal Indian Navy has increased by approximately 50 per cent. during the past year. As in the case of the Army, training facilities have been expanded and developed, including the opening of a Torpedo School and a new and larger Anti-Submarine School. Considerable progress has been made in the improvement of facilities at the various naval bases and several new bases are under construction.

10. It is the development of the Air Force in India, however, which presents the most impressive picture, not only because of its magnitude but also because of its immense importance and proved value as a factor in India's defence system. A year ago our programme of expansion of the air forces in India comprised, first, the building up as rapidly as possible of an Indian Air Force and, secondly, the provision of air fields and other facilities necessary for the operation and maintenance of an air force adequate to protect India against external aggression. It had always been realised that, should war on any considerable scale come to India's actual frontiers, the Indian Air Force would have to be supplemented by reinforcing Royal Air Force squadrons until such time as the expansion of the Indian Air Force enabled India to be self-supporting in this arm of the service. A review undertaken early in the current year in the light of the situation then existing and of experience gained in other theatres of war showed, first that a very much larger number of reinforcing squadrons would be required than had previously been envisaged and, secondly, that ground and other facilities on a scale hitherto unimagined were imperatively

[Mr. C. E. Jones.]

necessary to give the air force in India the mobility and flexibility necessary to enable it to meet attacks from any likely quarter. Accordingly a comprehensive programme of aerodrome construction was drawn up, the carrying out of which as a matter of the highest possible urgency has absorbed a large proportion of the country's resources of labour and materials during the year. To give some idea of the magnitude of the effort involved I may mention that nearly one million men were employed, often by both day and night, for several months on this immense task, while enormous quantities of bricks, cement and other building materials were required for runways, roads and buildings.

A steady stream of aircraft with their connected equipment, stores and trained personnel has been pouring into India, where squadrons of various types equipped with the most modern aircraft are rapidly being formed and allotted roles in the defence plan. At the same time, the work of raising and training personnel for the expansion of the Indian Air Force is being vigorously pursued with the most satisfactory results. A number of Indian Air Force squadrons have already been re-equipped with aircraft of the latest types, and are being trained in their use so as to be ready for active operations. This development of the Indian Air Force involves the training of a large number of Indians in various crafts and trades, and is thus bringing into being a body of highly skilled artisans whose existence, apart from their value in the present emergency, will be of great permanent advantage to the country as a whole. The anti-aircraft defences of the country have also been enormously strengthened and improved during the year, as well as a widespread repair and maintenance organisation for the country's rapidly expanding air force.

11. Before considering the effect of all these activities on our Defence expenditure, I must ask the House to bear with me while I explain in some detail certain major problems that have arisen in connection with the allocation of the cost of some of these measures. For this purpose it is necessary briefly to recapitulate the arrangements on which the apportionment of Defence expenditure in India between British and Indian revenues is based.

Honourable Members will recall that under the Financial Settlement between His Majesty's Government and the Government of India which was negotiated in November 1939 India is to pay—

- (a) her pre-war normal budget for effective charges of Rs. 36·77 crores ;
 - (b) a sum in adjustment of the normal budget for rise in prices ;
 - (c) the cost of " Indian War measures ", that is, such war measures as can be regarded as purely Indian liabilities by reason of their having been undertaken by India in her own interests ; and
 - (d) a contribution towards the additional costs of her external defence, on which account a lump sum payment of Rs. 1 crore has been made.
- His Majesty's Government is to pay for the remainder of all general defence and supply expenditure incurred by India, subject to separate post-war negotiations concerning the liability for surplus war stores in India acquired in the common interest. Non-effective charges were to be dealt with separately.

Expenditure on Supply in its widest sense—the production of guns, ammunition, armoured cars, clothing and warlike stores of every description—was so closely related to direct defence expenditure that it also was covered by the Financial Settlement. The arrangement was, broadly speaking, the same : India pays for whatever she takes from Indian production for Indian war measures, and for her share of joint war measures, including storage charges ; and His Majesty's Government pays for, and owns, all the remaining stores produced, together with practically all the capital assets created for the purpose of expanding production and storage.

Both parties to the Settlement emphasised the importance of avoiding the meticulous calculations, arguments and adjustments which gave rise to such endless trouble and confusion in the last war.

12. I regret, Sir, that I must at this stage try the patience of the House still further by explaining the precise significance of the term " joint war measure ", since a certain amount of misunderstanding seems to have arisen regarding it. It has been argued that this is a new class of case not contemplated in the original Financial Settlement ; and that the charging to Indian revenues of a share of the cost of a joint war measure involves therefore a burden on India contrary to the terms

of the Settlement. That argument is definitely incorrect, and there was no lacuna such as it would imply in the original settlement. The expression "joint war measure" is, in fact, merely a convenient description of a measure which is taken neither solely in the interests of India nor solely in the interests of His Majesty's Government but in the joint interests of both. The existence of such measures has been recognised from the very beginning. In his first budget speech made three years ago, when explaining the principles of the Settlement to the Legislative Assembly, the Honourable the Finance Member quoted the expansion of various recruiting and training organisations, headquarters offices, etc., as examples of such "joint liabilities to be shared between the Indian and Imperial Governments", (to quote his own words). He then proceeded to say that the third item in the Settlement, viz., those measures which we must pay for ourselves, will as far as possible be determined by direct accounting, but where this presents serious difficulties the amounts debitable to India will be assessed on the basis of estimates. This last sentence could obviously only apply to the determination of India's share of joint liabilities or, as we now call them, of joint war measures. I should also add that joint war measures have been specifically referred to and described in the Appropriation Accounts for each of the three years 1939-40 to 1941-42, and are well known to and understood by the Public Accounts Committee of the Legislative Assembly.

13. This Settlement, which is frequently alleged to be vague and indefinite, has hitherto in practice worked extremely well. Its application is closely watched by the Auditor General of India on behalf of both Governments; he scrutinises in detail the allocation of charges between India and His Majesty's Government, and reports to the Public Accounts Committee in India the results of his scrutiny. His report and comments go also to the Comptroller and Auditor General in the United Kingdom, and the Report of the Public Accounts Committee of the Indian Legislature is forwarded to the Public Accounts Committee of Parliament. I mention these facts in order to emphasise that the allocation of war expenditure under the Settlement between India and England is conducted in accordance with settled principles, and is open to audit on behalf of the Indian Legislature and to investigation by the Public Accounts Committee of the Legislative Assembly.

14. After the conclusion of the Settlement, which it must be remembered took place within the first few months of the war, it was found necessary to effect a large expansion of India's land forces for purposes of the defence of India. This of course was a purely Indian war measure. But it so happened that, when the general strategic situation required and the strategic situation in India permitted, troops originally raised for purposes of India's defence were sent overseas and had to be replaced in India, even while the expansion itself was still in progress. The same thing happened in the case of later expansions also, and these changes in the roles of new units and formations led to constant changes in the allocation of the relevant expenditure. It soon became obvious that all expansions of the land forces in India must be considered as one joint war measure, and that the cost thereof should be divided in the following manner:—

(a) That India would pay for the raising, training, and equipping from *Indian resources* of all land forces raised in India, and for their maintenance as long as they stayed in the country and were available for the local defence of India. When they left for overseas, the cost to India of raising and training them and also of equipping them would be recovered from His Majesty's Government who would assume all further liability for them.

(b) All imported equipment and stores for such expansion measures of the land forces, from whatever source, (except vehicles, armoured or otherwise, from elsewhere than the United Kingdom) would be provided free by His Majesty's Government.

Apart from its general equity, this method of dividing the cost of this joint war measure had the great advantage also of simplicity and administrative convenience. It involved the minimum of accounting, and ensured that effective financial and administrative initiative and authority for these measures was located in India.

15. The allocation of the cost of expansion of the Royal Indian Navy gave rise to no special problem. It consisted mainly of purely Indian war measures relating wholly to India's local naval defence. No difficulty has been experienced in dealing, in accordance with the principles of the Settlement, with such naval joint measures.

[Mr. C. E. Jones.]

as have been put into force, as *e.g.*, the creation of naval bases in India to cater for both India's local naval defence vessels and those of the Royal Navy.

16. The expansion of the Air Forces in India, however, is a major measure which has raised a financial problem of considerable magnitude. It is clear that this expansion, like that of the land forces, is a joint war measure. For, although the role of the Air Forces while located in India is to defend India, some of them might be allotted other roles when the removal of the immediate threats to India's security permits of their release. The problem was to arrive at an equitable and simple method, acceptable to both Governments, of allocating the very heavy expenditure arising out of this joint measure. In many respects the problem resembles that connected with the expansion of India's land forces, but there are certain important points of difference. In the case of the air forces, the bulk of the expansion must necessarily consist of Royal Air Force squadrons specially brought into India for the purpose, and His Majesty's Government have incurred heavy expenditure on the raising and training of these squadrons. The aircraft and most of the other equipment of an air force have to be imported into India and are exceedingly costly. On the other hand, the expenditure incurred in India on the provision of ground facilities for these forces is, as already mentioned, very large.

17. A second financial problem of some magnitude has been created by the increasingly complicated expansion of the Supply Department's activities. As Honourable Members are aware, the expansion in multifarious directions of war industries in this country has involved the establishment of new factories throughout the country, all of which has been done at the cost of His Majesty's Government. Numerous ancillary small scale industries for the production of a host of minor but important parts such as nuts, bolts, rivets, and so on, have also grown up in almost every corner and workshop of India, again at the capital expense of His Majesty's Government. As a result of the expansion of India's defence measures India's own share of the offtake from these factories has rapidly increased. For this she of course pays in cash, since the factories and workshops, having been paid for, are actually owned by, His Majesty's Government, in whom therefore the right of disposal after the war will vest, although a great deal of this new industrial productive capacity will be to the permanent advantage of India. It has thus become evident that, apart from the equities of the matter, it is to the mutual interests of both India and His Majesty's Government that the allocation of capital expenditure on Supply measures should be reviewed.

18. A third financial problem of importance has arisen by reason of the arrival of United States Air Forces in India and the grant of reciprocal Lease-Lend aid to them. Just as Lease-Lend involves cash expenditure in America by the American Government, so reciprocal Lease-Lend of such goods and services as India can supply to the United States Air Forces involves immediate cash expenditure in India. The question at once arose of who should meet the cost of this assistance, to determine which it was first necessary to decide whether expenditure on reciprocal Lease-Lend fell within the Financial Settlement or not, and if so how it could be allocated in some simple and broadly equitable way.

19. Over and above the large questions which I have just mentioned and which relate to the application of the existing Financial Settlement, there arose a still larger issue, namely, whether in the new situation which had developed, the terms of that settlement were any longer capable of producing an equitable apportionment of defence liabilities. On behalf of His Majesty's Government it was pointed out that, whilst on the one hand large quantities of the most expensive modern equipment were being sent to India for the defence of India without any charge by Britain, on the other hand, the cost of the goods and services supplied by India for theatres of war outside India was being charged in full to His Majesty's Government. It was urged that the conception of Indian defence, on which the existing scheme rested, was too narrow, in that India's liabilities were restricted to the geographical limits of India and did not extend even to operations in contiguous territory just beyond those borders. Throughout the world there was a growing recognition of the importance of the principle of "Reciprocal Aid" enunciated by President Roosevelt, namely, that each of the United Nations should contribute all it can from its own resources and in proportion to its capacity to the common war effort. It was

strongly contended by His Majesty's Government that the continued operation of the Financial Settlement between India and the United Kingdom would lead to an inequitable distribution of the costs of the joint efforts to defend India and the countries with which the defence of India was intimately bound up, against the aggression of the Axis powers. It was therefore proposed on behalf of His Majesty's Government that the existing Settlement should be abandoned and that in the new arrangement it should at least be stipulated that the value of equipment supplied by His Majesty's Government for the defence of India should be set against the cost of goods and services supplied by India for use in operations outside India.

20. These problems were of such importance, and involved such major financial issues, that it was deemed advisable that the Honourable the Finance Member should proceed to the United Kingdom to discuss them. The discussions on the major question of a revision of the Financial Settlement were prolonged and occupied the greater part of the duration of his stay in England. On behalf of India it was pointed out that, owing to the developments in the situation since the entry of Japan into the war, the cost of the measures necessary for the defence of India and for which India is liable under the existing Settlement, was so great as to impose a very heavy strain on India's limited financial resources. Whilst it was true that the existing Settlement had in the first two years of the war operated in such a way as to shelter India from the major financial consequences of war, that was no longer the case at the present time. It was therefore strongly contended that the existing Financial Settlement should not be abandoned, and that any outstanding questions should be adjusted with strict reference to the principles of that Settlement. It is not possible nor is it necessary for me to explain at length the arguments which were advanced in the course of these discussions, but I have no doubt that the House will be glad to hear that the Government of India have now been informed that His Majesty's Government do not intend to pursue the proposal to modify the character of the existing Financial Settlement. That Settlement therefore stands.

21. In the matter of an equitable allocation of the costs of expanding the Air Forces in India, it has not yet been possible to arrive at a definite decision. It is accepted that India's liability shall be related only to the amount of the expenditure actually brought to account by India, namely, the capital outlay incurred in India on the provision of airfields and other ground and operational facilities, and the recurring costs of the squadrons and connected services while employed in India. It is, however, considered essential in India's interests to arrive at an understanding regarding the maximum forces which should be considered as strictly necessary for the defence of India. As I have previously indicated, our maximum requirements in terms of land forces will probably be reached during the coming year, and the estimates have been framed on this basis. In the case of the Air Forces, a limitation of this nature is more difficult to formulate. Pending the determination of this issue an arbitrary amount equivalent to half of the total estimated capital and recurring costs in question has been provisionally included in the revised and budget estimates, and the balance taken for the time being to a suspense account.

22. As far as the Supply Department activities are concerned, it was suggested that a solution of the problem satisfactory to both parties might be found in the practice to which Government frequently resorts in negotiating with a private industrialist an expansion of his plant for war production. He is frequently not prepared to find the finance himself, either because he cannot, or because the expansion may have a doubtful post-war commercial value. India's war-time industrial expansion as a whole is very similarly circumstanced. Some of the expansions may not have any post-war commercial value, but others will have. It is accordingly proposed that India should provide one half the capital (as is usual in dealing with private industrialists) and should then own all the assets, already created or to be created. This arrangement would not extend to the Chatfield factories which are already owned by India, although established at the expense of His Majesty's Government. India would thus acquire the ownership of industrial assets located in her territory, and this arrangement would avoid long post-war arguments as to the disposal of property owned by His Majesty's Government.

23. The question of Reciprocal Aid to the United States Forces in India, in relation to the Financial Settlement between His Majesty's Government and India,

[Mr. C. E. Jones.]

has proved extremely difficult. The Mutual Aid Agreement of February, 1942 between His Majesty's Government and the United States of America does not cover either the Dominions or India. That agreement provides for Reciprocal Lease-Lend as an obligation arising from the benefits of Lease-Lend. Some of the Dominions have already executed separate Agreements direct with the United States of America, adopting in terms the Mutual Aid Agreement between the United Kingdom and the United States of America and thus accepting the liability for Reciprocal Aid to the United States of America. In the absence of any such separate agreement between India and the United States of America the true character and significance of India's participation in the benefits of Lease-Lend goods and services, and the nature of the consideration which should be given in return, are very difficult to determine. One view would be that the Lease-Lend goods which India receives have really been Lease-lent by the United States of America to His Majesty's Government, who might pass them on to India on such conditions as were mutually agreed upon. Suitable conditions would obviously be extremely difficult to devise and impose. His Majesty's Government could not pass such goods to India unconditionally because of the obligations it has assumed in respect of them. The nature and extent of the consideration for them which India would have to give His Majesty's Government would again raise a problem that it would be exceedingly difficult to solve. It would almost certainly be expected that India would afford reciprocal Lease-Lend to the United States Forces within her territories as one element in this consideration. Again the ownership of the cash receipts which accrue from the sales of Lease-Lend goods in India to the public or to *quasi*-public bodies would need determination. In short, in the absence of a direct Mutual Aid Agreement between India and the United States of America, the problem of Reciprocal Aid to the United States Forces in India bristles with difficulties. The possibility of entering into a direct Mutual Aid Agreement with the United States of America is at present being considered and it is not possible for me to say anything more on this matter at present. In the meantime Reciprocal Lease-Lend to the United States Forces in India has been shown in the Defence estimates as a charge to Indian revenues. At the same time credit has been taken in the same estimates for all receipts expected to be realised from the sale of Lease-Lend supplies to the public, Provincial Governments, Railways and Government Departments run on commercial or *quasi*-commercial lines. This decision involves a modification of the procedure announced in my last budget speech under which the value of Lease-Lend stores utilised for Indian purposes, whether civil or military, was to be charged to the budgets concerned and the corresponding credits taken to a suspense head of account.

24. Although it has been necessary for budget purposes to make an estimation of the cost of Reciprocal Aid likely to be rendered to the United States Forces in India during 1942-43 and 1943-44, I must emphasise that, owing to various unpredictable factors and accounting difficulties, the accurate assessment of this cost is impossible—at any rate at this juncture. Any figures given therefore must be taken with the greatest reserve as being little more than rough guesses. A similar caveat applies to an even greater extent to any estimates of the value of Lease-Lend supplies to India. Subject to this reservation the total expenditure on providing Reciprocal Aid to the United States Forces in India during 1942-43 and 1943-44 has been taken in these estimates at Rs. 16,70 lakhs and Rs. 8,04 lakhs, respectively. The disparity between the two amounts is due to the fact that the bulk of the capital costs of providing aerodromes in India for the United States Air Forces is included in the amount for 1942-43. On the other hand the estimated value of Lease-Lend supplies already received in India and utilised for her own purposes exceeds the aggregate provision made for reciprocal aid during the current year and the next.

25. It has also been decided to liquidate as soon as convenient our Chatfield debt of one quarter of £34 millions. It will be recalled that this was the estimated pre-war capital cost of modernising the Army in India, three-fourths of which was to be provided by His Majesty's Government as a free gift to India while the balance of one-fourth was to be India's liability, to be discharged on easy terms. Early liquidation of this liability, which will in any case have to be discharged sooner or

later, amounts in effect to the repatriation of another small block of India's sterling debt.

26. It remains for me to mention one other special feature of the defence portion of the estimates now presented before I come to the actual figures. An analysis of the expenditure covered by those estimates brings out the fact that it contains many elements of a capital nature against which tangible and valuable assets are held. The principal items falling into this category are (1) the capital outlay on providing airfields and other ground facilities for the Air Forces, (2) India's share of the capital cost of industrial expansion measures, (3) the capital outlay on airfields, etc., provided under the Reciprocal Aid arrangements for the United States of America Forces in India, (4) the cost of constructing new capital ships for the Royal Indian Navy and (5) the defence share of the capital outlay on the scheme for the extension of telegraph and telephone communications in India. It would be quite in accordance with the general practice of Government to charge such expenditure to a capital head, although this course has not in the past been followed in the case of defence expenditure. It has therefore been decided that the revised and budget estimates for the defence services will consist of a revenue portion and a capital portion and, as the capital expenditure in the current financial year is likely to be very much heavier than that incurred in 1943-44, this arrangement has the advantage of avoiding a serious disparity that might otherwise be shown between the revised and budget estimates of the defence expenditure chargeable to revenue.

27. The revised estimates of defence expenditure for the year 1942-43 amount to Rs. 189,75 lakhs and Rs. 49,14 lakhs under the revenue and capital heads respectively. The details are as follows:—

<i>Revenue portion.</i>			<i>Capital portion.</i>	
(Rs. in lakhs.)			(Rs. in lakhs.)	
	Budget.	Revised.		Revised
(1) Basic normal budget	36,77	36,77	(1) Air Force—aerodromes	18,37
(2) Effect of rise in prices	6,52	8,61	(2) Capital outlay on industrial expansion	12,00
(3) India's War measures	81,30	135,96	(3) Reciprocal Aid—aerodromes	12,75
(4) Non-effective charges	8,41	8,41	(4) New construction for the Royal Indian Navy	4,72
Total	133,00	189,75	(5) Capital outlay on Tele-communication scheme	1,30
			Total	49,14

In the revenue portion the increase of Rs. 2,09 lakhs in item (2) over the corresponding budget figure represents the estimated effect on the cost of India's normal peace garrison of the increases in pay and allowances of British and Indian troops, and of dearness allowances for other low paid Government servants, sanctioned during the year. The increase of Rs. 54,66 lakhs in item (3) is due mainly to the increase in the strength of forces in India, increases in pay and allowances of defence personnel, the grant of field service concessions to troops in India, and the provision of additional port and coast defence measures. Allowance has been made for receipts amounting to Rs. 7,50 lakhs on account of Lease-Lend supplies utilised by the public, Provincial Governments, Railways and the Posts and Telegraphs Department.

The estimate of non-effective charges remains unchanged pending conclusion of a settlement with His Majesty's Government regarding the allocation of such charges arising out of the war. The discussion of the terms of this settlement is now approaching finality.

The nature of the items provided for in the Capital portion of the defence estimates has already been described.

28. The very full treatment which I have given to the estimates of Defence expenditure has been necessitated by the importance of the issues which they raise, the magnitude of the sums involved and the degree of public interest which has been evidenced in this regard. I trust that this is in accordance with the wishes of the House, although it involves the corollary of a somewhat scant consideration of the estimates of Civil expenditure, which in the current year show an increase of Rs. 29½ crores over the budget estimates. Rs. 15 crores of this large increase, or more than half, is accounted for by the technical accounting requirements in respect of the

[Mr. C. E. Jones.]

War Risks Insurance Schemes which I have already explained. The balance of Rs. 14½ crores is attributable almost entirely to causes connected with the war and the conditions created by it. Details will be found in Statement No. VII of the Explanatory Memorandum. The main contributory items are Civil Defence, of which the bulk goes to the Provinces in the form of grants; dearness allowances to staff; organisation and grant of relief to evacuees from Burma; financial assistance to the Provinces towards the heavy additional expenditure imposed on them by the civil rebellion of August last, and expansion of requirements for obvious reasons in such matters as stationery and printing, currency and mint, and civil works.

29. The revised estimates for the current financial year 1942-43 can now be summarised as follows :

	Budget.	Revised.	(Rs. in lakhs.) Improvement (+). Worsening (-).
Net Defence expenditure (Revenue portion) .	133,00	189,75	—56,75
Civil expenditure (Revenue portion) . . .	54,07	83,87	—29,80
Total expenditure	187,07	273,42	—86,35
Total revenue	152,00	178,76	+ 26,76
Deficit (—)	—35,07	—94,66	—59,59

The net result of an improvement in revenue of Rs. 26·76 crores and an increase in expenditure on revenue account of Rs. 86·35 crores is that the revenue deficit for the year will increase by Rs. 59·59 crores to Rs. 94·66 crores.

30. I pass now to a consideration of the estimates of revenue for the financial year 1943-44, full details of which are set out in the Explanatory Memorandum. Customs revenue in present conditions depends almost entirely on the availability of shipping, and in view of expanding war requirements in that respect we are allowing for a further drop of Rs. 1 crore in the yield of our customs duties. We anticipate a fall of similar amount in our salt revenue, as the speculative hoarding of the current year will tend to reduce issues next year. An improvement of Rs. ¼ crore is shown under Central Excise duties, almost solely on account of sugar in expectation of an amelioration in the factors which have curtailed our excise revenue from this source in the current year such as short supplies of cane to the factories and transport difficulties accentuated by civil disturbances. There is also an increase of Rs. ¾ crore under the head "Interest", which is due to the element of interest in the credit which we shall receive from His Majesty's Government in accordance with the financial arrangement made in regard to the Railway annuities with which the House is already familiar.

31. The high light of our revenue next year, however, is provided by Income Tax. This, inclusive of Corporation Tax and Excess Profits Tax, we confidently expect to give us a grand total of Rs. 95 crores, which represents an improvement of Rs. 17 crores over the revised estimate for the current year. Excess Profits Tax alone is expected to yield Rs. 40 crores. The share of income-tax revenue payable to the Provinces next year will reach the record figure of Rs. 12·10 crores, as against Rs. 8·37 crores and Rs. 10·90 crores in the budget and revised estimate for the current year. Credit has been taken in the estimates for Rs. 27·10 crores as the contribution from Railways to Central revenues, which exceeds that for the current year by nearly Rs. 7 crores. This is in accordance with the revised arrangements which were recently considered by the House in connection with the Railway Budget. From the Posts and Telegraphs Department we expect to receive an outright contribution of Rs. 7·16 crores which is more than Rs. 1½ crores in excess of the contribution for this year. The measure of assistance to general revenues which these great commercial departments are rendering in the present critical times will, I am sure, be fully appreciated by Honourable Members. As the result of these and other variations too numerous for specific mention our estimates of total revenue for 1943-44 amount to Rs. 199·30 crores as compared with Rs. 178·76 crores in the revised estimates for the current year, showing an increase of Rs. 20·54 crores.

32. Turning now to the expenditure side of the account for the year 1943-44, the budget estimates for defence expenditure, framed on the basis which I have already explained at length amount to Rs. 182.81 lakhs and Rs. 16.85 lakhs under the revenue and capital heads respectively. Following the usual classification they may be expressed thus :—

<i>Revenue portion.</i>			<i>Capital portion.</i>		
	(Rs. in lakhs.)				
	Revised, 1942-43.	Budget, 1943-44.	Revised, 1942-43.	Budget, 1943-44.	
(1) Basic normal budget.	36,77	36,77	(1) Air Force—aerodromes	18,37	2,52
(2) Effect of rise in prices.	8,61	10,62	(2) Capital outlay on industrial expansion	12,00	4,00
(3) India's war measures	135,96	127,01	(3) Reciprocal aid—aerodromes	12,75	2,85
(4) Non-effective charges	8,41	8,41	(4) New construction for the Royal Indian Navy	4,72	3,28
Total	189,75	182,81	(5) Capital outlay on Tele-communication schemes	1,30	4,20
			Total	49,14	16,85

So far as the revenue section is concerned, the main point of interest is the reduction by nearly Rs. 9 crores of the cost of Indian war measures. Continued expansion in the strength of the forces, improvements in the pay and allowances of defence personnel and the grant of field service concessions to troops serving in India all contribute to an increase in the bill, but the increases for next year are more than counterbalanced by a lump deduction made to allow for possible movements of troops out of India, and by a heavier receipt (Rs. 15 crores) on account of Lease-Lend supplies utilised by the public, Provincial Governments, Railways, and the Posts and Telegraphs Department. In the Capital section the large decrease is due to the fact that the greater part of the programme of aerodrome construction, both for the Air Forces in India and for the United States Army Air Corps, is expected to be completed during 1942-43. In both sections the estimates show a decrease in the defence budget as compared with the revised for the previous year, for the first time since the war began. Without attempting to forecast whether this process will continue, we may at least hope that the stage of heavy additions is past.

33. Civil expenditure during 1943-44 is estimated at Rs. 76.78 crores, some Rs. 7 crores below the revised estimate for the current year. Rs. 4½ crores of this drop is due to smaller receipts from the Factories War Risks Insurance Scheme, since only 3 of the 8 premia will remain to be paid next year. A reduction in expenditure on Civil Defence, rendered possible by the diminishing risk of enemy attacks with the improvement of the war situation, accounts for a further Rs. 2½ crores. Other variations, particulars of which will be found in the Explanatory Memorandum, more or less cancel each other and are not of sufficient importance to require enumeration and explanation in this speech.

34. The revenue position for the coming year thus works out as follows :—

	Revised, 1942-43.	Budget, 1943-44.	(Rs. in lakhs.) Improvement (+) Worsening (—).
Net Defence expenditure	189,75	182,81	+ 6,94
Civil expenditure	83,67	76,78	+ 6,89
Total expenditure	273,42	259,59	+ 13,83
Total revenue	178,76	199,30	+ 20,54
Deficit (—)	—94,66	—60,29	+ 34,37

With revenue at the existing level of taxation we therefore face a prospective deficit on revenue account of Rs. 60.29 crores. But before dealing with the problem of this deficit I will, in accordance with the customary procedure, give at this stage an account of the ways and means position and the various connected questions, which are of great and increasing importance not only to our scheme of war-time finance but also to the general economy of the country.

[Mr. C. E. Jones.]

35. During the year 1st February 1942 to 31st January 1943 the Government raised Rs. 34½ crores from its Defence Loans; Rs. 36 crores from sale of counterparts of repatriated stocks or reissues of existing rupee loans into which some of the counterparts had been converted; Rs. 15 crores from a special reissue of the 3 per cent. 1963-65 loan which was made in connection with the funding of our liabilities in respect of railway annuities; and Rs. 8 crores from the market loans floated by certain Provinces for the purpose of making advance repayments of part of their consolidated debts due to the Central Government. This gives a total for the year of Rs. 93½ crores. To the total borrowings for the year the early months contributed but meagrely, because the market situation consequent on adverse war developments was such as to preclude the opening of the Third Defence Loan before July, 1942, although the Second Defence Loan had been closed the previous February. The later trends are much more encouraging. During the seven months 1st July, 1942 to 31st January, 1943, our receipts of loan money amounted to Rs. 84 crores, in addition to which the net increase in our short term borrowings from the public by sale of treasury bills was Rs. 48 crores. The average *monthly* borrowings over this 7 months' period were thus close upon Rs. 19 crores. It is sincerely to be hoped that this rate of investment will continue, or preferably be substantially exceeded, not merely for the financing of war expenditure in India but specially to reduce the pressure of surplus purchasing capacity on the limited supplies of consumable goods which are available in war-time. This latter consideration is particularly pertinent in the sphere of small savings, where a widespread response to the many appeals which have been made would be of immense benefit both to the country as a whole and to the individual citizen.

36. Honourable Members are already conversant with the general sterling position whereby, as the result of periodical refunds by the Secretary of State for India of recoverable war expenditure and purchases in India on behalf His Majesty's Government and Allied Governments, the Reserve Bank receives substantial amounts of sterling in addition to its own purchases from banks and on trade account. They are also well acquainted with the Government's policy of repatriating India's sterling debt, which has been fully explained in the budget speeches of the last two years. That process has now been completed, the only outstanding of our sterling loans being some £12 to £13 million which either fell beyond the scope of the vesting orders or was not paid off through non-presentation of claims. Apart from some market purchases which were financed from our balances, the rupee finance required for the payment last March in respect of the vested 2½ per cent. and 3 per cent. undated sterling loans, as also for the redemption last month of the 3½ per cent. undated stock, was raised in the first instance by the issue of "ad hoc" treasury bills in favour of the Reserve Bank. The funding of all this additional floating rupee debt proceeds continuously through the good offices of the Reserve Bank. The present position is that, of the finance required for various repatriation and funding operations to the extent of Rs. 400 crores, only Rs. 160 crores is still in the form of Central Bank finance. The repatriation since the outbreak of war of some £300 million of sterling debt with so little disturbance to the money market is a most notable achievement, for which the country may well feel gratified. I am sure that the House will appreciate the assistance rendered in this connection by His Majesty's Government, and the cooperation of the Bank of England and the Reserve Bank in putting through these immense transactions with smoothness and efficiency. I cannot refrain here* from mentioning the great personal services rendered by the late Governor of the Reserve Bank, Sir James Taylor, whose sudden and unexpected death but a few days ago came as a terrible shock to his many friends among all classes and has deprived the Government of his unrivalled experience, acuteness of perception and sound judgment which was always so generously and unreservedly placed at their disposal.

37. We have taken advantage of the large sterling balances still available after the repatriation of the sterling loans to fund our outside obligations in respect of Railway annuities by arrangement with His Majesty's Government and, with their cooperation once again, to repatriate Railway stocks. In the former case we have funded a rather complicated series of Railway annuities by the payment of a lump sum of £30 million to His Majesty's Government, who have undertaken to provide

the annual sums required for payment to the annuitants until their termination, the flat rate of interest taken as a fair basis for the arrangement on actuarial calculations being 2½ per cent. The vesting of Railway Debenture Stocks of the face value of £20 million has already been announced, and payment will be made during the course of the current financial year. Notice has also been given of the redemption on the 4th February 1944 of three 3½ per cent. Debenture Stocks of a total value of £11 million for which, as in the case of the 3½ per cent. undated sterling stock, the vesting procedure would not have been appropriate. The rate at which sterling is accumulating with the Reserve Bank has not only enabled it to provide us with the sterling needed for our repatriation and other transactions but has left a surplus well above its reasonable reserve requirements. Thus has India ceased to be a debtor country, and there can be little doubt but that she will find her creditor position a distinct advantage in the post-war world, apart from the relief she has secured of the necessity of providing exchange every year for meeting her public charges.

38. The question of the future utilisation of India's sterling balances is one which has attracted public interest in recent months and has been the subject of much speculation. It is a question which naturally engages the continuous attention of the Government. Hitherto action has been concentrated on extinguishing as many as possible of our public sterling liabilities, and this is obviously the primary use to which surplus sterling assets should be put. With the virtual cessation of payments on interest account to external bond-holders, the only substantial liability still remaining on account of which sterling remittance would normally be necessary will be payments on account of sterling pensions, family pensions and provident funds. It is estimated that these charges in the period that lies ahead will be of the order of from £5 to £6 million a year. The Government of India have accordingly had under consideration a scheme for making advance provision for the requisite sterling remittance wherewith to meet future payments in respect of these liabilities, on the lines of the arrangement recently made for sterling railway annuities. This would in effect involve the purchase from His Majesty's Government, by the investment of a capital sum at a suitable rate of interest, of the right to receive a series of sterling payments estimated to be sufficient to meet the relevant charges over the period during which they are likely to have to be met. These charges, and consequently the sterling remittance required to meet them, would naturally after a certain time gradually decline in amount until they disappeared, and the transaction might thus be described as the purchase of a tapering annuity. It is not contemplated that the rights of any class of Government servants would be in any way affected, or that the liability to pensioners should be transferred from the Government of India. The arrangement would be purely financial, and would amount to the investment of a capital sum in return for which the Government of India would at stated intervals receive stated sums of sterling with which is they would be in a position, as far as can be estimated, to meet these sterling obligations. This investment would naturally provide a much more favourable rate of interest than that earned on the present investments in sterling treasury bills.

39. An arrangement of the nature just described would be capable of absorbing a considerable sterling sum, and would indeed be the equivalent of a large scale repatriation. There would however still remain, as far as can be judged from the rate at which sterling is accruing, a substantial surplus above the amount which is likely to be required as a reserve against our currency note circulation. The Government of India are therefore at the same time considering the proposal, which has been made from several quarters, that something in the nature of a Reconstruction Fund should be constituted to provide for the financing of a programme of post-war reconstruction, including the rehabilitation and re-equipment of industry. It is clear that in the post-war period India will have heavy demands for imported machinery and plant to equip her greatly expanded industrial system, to re-equip her railways and to enable Provincial and State Governments to carry out schemes of electrification, irrigation and the like, which have had to remain in abeyance during the war. It may be taken for granted that it will be found necessary even after the end of the war to proceed on some orderly programme for the purchase of these capital goods from the producing countries. In this respect the position may well be found to be not greatly dissimilar from the present situation in regard

[Mr. C. E. Jones.]

to the procurement from overseas sources of the plant and equipment necessary for war production. The first essential would probably be a careful and comprehensive survey of India's requirements and the establishment of some order of priority upon which a programme could be drawn up. In so far as this programme depended on the ability of producing countries to release certain types of goods for export, it would clearly involve international cooperation, and in particular the assistance and cooperation of His Majesty's Government. The existence of such a Reconstruction Fund, coupled with a concerted programme of requirements, would place India in a favourable position to endeavour to secure the early fulfilment of her post-war needs and so enable her to go ahead with post-war reconstruction with the minimum of delay.

40. I feel that the House will expect me to say something at this stage on a topic which is, quite naturally, exciting considerable attention at the present time. I refer to the general currency position, the increase in the volume of purchasing power in the country, and its relation to the increase in the price level. I am prepared to admit at the very outset that there is to some extent a relationship of cause and effect between an increase in that volume of purchasing power and a rise in prices; but I would assert, and assert most definitely, that that relationship is very much more complex than is generally realised or implied in popular discussion on the subject. The whole issue tends to be discussed in purely quantitative terms, with the underlying implication that it is within the full discretion of Government to vary the quantity of purchasing power upwards or downwards and so to control the price level directly.

41. I would agree at once that, if the Government were so to manage its finances as to rely upon the Reserve Bank for unlimited loans to finance its current expenditure, it would bear a grave responsibility. But, in fact, the Government has not financed and is not financing its expenditure in this way. Borrowing from the Reserve Bank has never been resorted to for the purpose of meeting Government disbursements. I have noticed a disposition in some quarters to assume that the initial financing of repatriation operations by the issue of "*ad hoc*" treasury bills to the Reserve Bank is nothing but credit inflation. That is most definitely not the case. Never has there been any expansion of the currency against the "*ad hoc*" treasury bills so created. These treasury bills merely replace the sterling against which currency had already been expanded in the ordinary course for meeting disbursement demands in India, and the substitution amounts to nothing more than a readjustment of the investment portfolio of the Issue Department of the Reserve Bank. The transaction means the discharge of a further slice of India's external debt, which can only strengthen India's currency position, and its replacement by a corresponding volume of internal floating debt which is funded into internal permanent debt as market conditions permit. The latter process, as I have previously indicated, is progressing smoothly and satisfactorily.

42. The elements of the situation in India today are clear, and readily distinguishable from a state of pure credit inflation. The most important single factor which is impinging on the supply of purchasing power at the moment is the volume of orders which we receive from the United Nations and for which payment is made in sterling. Those who supply the raw materials, the labour power and the finished products are entitled to payment in rupees, and the Government of India has no direct control over the amounts involved. To stop issuing the currency required for such payments would simply mean a corresponding, or even disproportionate, curtailment of the war effort. The point I would stress is that the relationship between war orders and the increase in currency (by which I mean notes and coin) is by no means determinate. While it is true that those who produce the goods are entitled to be paid in rupees, it does not follow that every increase in the volume of war orders must be accompanied by a proportionate increase in the volume of currency. Currency passes from hand to hand, and the faster it passes the larger the total value of the transactions which can be facilitated by a given volume of it. Anything that slows up the movement of currency will, especially if the total value of transactions simultaneously increases, require an addition to its volume. It is difficult to obtain a quantitative estimate of the velocity of circulation of currency; but an indication can perhaps be obtained from the ratio of average deposits of

scheduled banks to banks' clearings, which was 15.6 in 1938-39 and only 6.6 for the first nine months of the current financial year. There is thus reason to suppose that currency is now turning over at less than half its pre-war rate, and this phenomenon must greatly temper the rise in prices which a given expansion of the currency might otherwise produce.

43. As a matter of fact there are a number of factors which go to explain the increase in the currency. The volume of transactions has risen and, since with increasing demands a rise of prices was inevitable, this increased volume of transactions implies a considerably larger aggregate rupee value. Even if in all other respects the situation had remained the same there would necessarily have been a demand for more money.

44. The situation however has not remained the same. In the first place, the aggregate money-using population has increased. There is a larger number of wage-earners in receipt of money incomes and their need for a store of cash has had to be satisfied. In the same connection there has been a tendency, through evacuation for instance, for families to split up and so to need a greater amount of currency than if they had remained united. In the second place, the amount of currency required per head has risen. This is quite natural at a time when prices have risen, since the individual naturally fixes his holding of currency in relation to the probable prices he will be called upon to pay. But there are other factors working in the same direction, as for example a preference for liquidity. A state of war induces a feeling of uncertainty, and the individual likes to be assured against contingencies by keeping a larger stock of currency with him. It should be remembered that the population of India is so large that an increase of Rs. 5 per head would absorb additional currency to the extent of Rs. 190 crores. Thirdly, there has been an increase in the cash holdings of the commercial banks; and fourthly, there has undoubtedly been large scale hoarding of currency of all kinds, bank notes, rupees and small coin. The hoarding of rupees and small coin is of particular importance in this connection, since it means that a part of the increase in the paper currency is purely substitutional and has no influence upon the price level at all. For these reasons it would be wrong to assume any automatic relationship between an increase in the circulation of notes and coin and an increase in the price level. The first half of 1940 saw in India, in fact, a period of expanding currency and falling prices, and it is true to say that prices have not moved in India in regular conformity with the expansion of currency. I should add that the very phenomena which I have enumerated are observable in all parts of the world and, notwithstanding all the difficulties with which we are faced, the rise of prices in India is a good deal less than it is in many other countries.

45. Finally, I would remind the House that there is yet another consideration of peculiar relevancy in assessing the significance of the rise in prices since the outbreak of the war, which should be constantly borne in mind but is all too frequently forgotten. For several years prior to the outbreak of hostilities prices of most commodities, but particularly of primary products, had been unduly depressed, and the problem of the day was how they could best be stimulated. Any comparison, with the price level of August, 1939 is therefore a comparison, not with a normal or a suitable base, but with a depression level. No good can result from exaggeration and wild talk in these matters. On the contrary much harm may result through fears being aroused which will lead to investment—buying and hoarding, to the benefit only of the speculator and the profiteer and to the detriment of the ordinary citizen. Granted that the United Nations will win the war—and on any other assumption discussion of the problems of the future would be meaningless and profitless—any insinuation of the possibility of inflationary conditions developing in India on the scale which was reached in some of the countries which suffered defeat in the last war would be as untenable as it would be foolish. When the war is over and the channels of trade are freed India's external assets, combined with the release of her enhanced internal production capacity by the cessation of war demands, will ensure an adequate supply of capital and consumer goods to satisfy a great increase in spending power. So long as the war lasts there will remain the most urgent need for restriction in private expenditure and the diversion of surplus funds to the various Government loan and savings schemes. This will secure the double advantage of limiting the present temporary,

[Mr. C. E. Jones.]

upward pressure on prices and of helping to sustain prices in the post-war period when those funds can be more profitably employed. The key to the situation, both present and future, is war-time saving.

46. I can now return to the question of the gap between revenue and expenditure on revenue account for the year 1943-44. On the estimates which I have presented the prospective deficit stands at Rs. 60·29 crores, while the anticipated deficit for the current year is Rs. 94·66 crores. The latter must of course be covered entirely by borrowing, but it would undoubtedly be extremely unsound not to meet a reasonable portion of next year's deficit by new taxation. The Government propose to do this to the extent of Rs. 20 crores, or roughly one-third of the prospective deficit, in the manner which I will proceed to explain.

47. In the first place, direct taxation will be made to yield an additional Rs. 7 crores as the result of certain changes in the income-tax rates. No change will be made in the case of incomes up to Rs. 5,000 per annum. On higher incomes the Central surcharge on income-tax will be increased, for the Rs. 5,000 to Rs. 10,000 slab of income from 9 pies to 10 pies in the rupee; for the Rs. 10,000 to Rs. 15,000 slab, from 14 to 16 pies in the rupee; and on the balance of income above Rs. 15,000 from 15 pies to 20 pies in the rupee. This will bring the rate of surcharge to the uniform figure of 66½ per cent. on all the basic rates of income-tax. The surcharge on super-tax will, in the case of incomes up to Rs. 3½ lakhs per annum, be increased by half an anna in the rupee, thus producing aggregate rates of super-tax inclusive of surcharge ranging from two annas in the rupee on the lowest super-tax slab to 10½ annas in the rupee on the top slab. The rate of corporation tax will also be raised by half an anna to two annas in the rupee. The Excess Profits Tax will be extended to cover the profits of a further period of one year, but the Government have decided to leave the rate unchanged at 66½ per cent. The options which were granted last year in the field of direct taxation as an inducement to save will continue, but it has not been found practicable to extend their scope for the coming year. This reinforces the need, already urgent, for encouraging and assisting voluntary saving on the part of the great and increasing body of wage earners whose incomes are below the taxable limit.

48. As regards indirect taxation, Honourable Members will remember that by section 6 of the Indian Finance Act, 1942, a 20 per cent. emergency surcharge was imposed over the whole field of customs import duties, subject to certain specified exceptions. In view of the financial position disclosed by the estimates the House will not be surprised to learn that the Government feel constrained to continue the levy of the surcharge for a further period of one year. As there is but little scope in present conditions for securing additional revenue in this field, the Government propose to introduce for the purpose two new excise duties, one on tobacco and one on "vegetable product".

49. Tobacco is the subject of taxation in practically every civilised country in the world today. It is ideal for the purpose, since it is not a necessity of life, yet is widely used to a degree which can readily be varied according to the means and inclination of the user. Here in India imported tobacco has for long been subject to customs duty at luxury rates, but the large indigenous production has hitherto escaped taxation for various constitutional and administrative reasons. The Indian Taxation Enquiry Committee in the year 1925 observed that "the considerations which have led in other countries to the selection of tobacco as one of the principal subjects for consumption taxation apply with equal force to India", and the time is now considered ripe for closing this obvious gap in our fiscal system. Constitutional obstacles have ceased to exist, and the development of Central excises in recent years has provided us with a machinery which, it is confidently expected, will be able satisfactorily to administer the new excise, notwithstanding the practical difficulties which are bound to arise. The necessary legislation will come before the House in due course, and so at this stage I will do no more than mention, that tobacco grown for the personal consumption of the grower or his family will be exempt from duty; that full drawback will be allowed on exports that the scale of the duties will be such as to involve nothing more than a modest increase in retail prices, and that the cost of administration will form but a small

percentage of the yield. So far as estimation is possible we put the probable receipts from this duty during the coming year at Rs. 10½ crores.

50. The subject of the other new excise duty is "vegetable product". This is an article which was formerly imported in considerable quantities from Europe and is now largely produced in this country. It frequently goes by the name of *vanaspali*. The rate of duty proposed is Rs. 7 per cwt. and the estimated yield is Rs. 140 lakhs. No administrative difficulties are anticipated.

51. Finally, the Government propose three changes in the postal and telephone rates; namely, an increase in the inland letter rate for each tola after the first from half an anna to one anna; an increase in the inland parcel rate for the first 40 tolas from four annas to six annas, and an increase in the surcharge on telephone rentals from one-sixth to one-third. These changes are expected to bring in an additional revenue of Rs. 1,20 lakhs.

52. These new taxation measures will reduce the prospective deficit for next year to be met by borrowing from Rs. 60·29 crores to Rs. 40·19 crores. By comparison with the pre-war scale of India's finances this is a large figure, especially following as it does upon a revenue deficit of nearly Rs. 95 crores in the current year. But on a dispassionate view, against the background of the cataclysm of a world at war and the economic and financial difficulties with which every country is faced, and having regard to the magnitude of the measures undertaken for the defence of the country, there can be no question but that India makes a most favourable showing: In the Explanatory Memorandum this year has been incorporated a section analysing the position of the public debt, both as it was before the war and as it will be, on the basis of our estimates, at the end of March 1944. It will there be seen that after 4½ years of war the total interest bearing obligations of the Government of India will have increased by no more than Rs. 146 crores; that practically the whole of this debt is internal rupee debt; and that by far the greater part of it is represented by remunerative capital assets. It is, in fact, estimated that on the 3rd March, 1944 the non-productive debt will be very little over Rs. 300 crores, against which there will exist a vast amount of Central Government property and a considerable quantity of partially remunerative assets. This is a picture, I would submit, Sir, which is no less surprising than it is heartening and encouraging. India's financial and economic structure has so far withstood the stresses and strains of war with a strength and resiliency which provides solid ground for confidence that she will emerge from those present sacrifices which war inevitably entails the stronger and the better equipped to play her part in the period of security, peace and progress which victory will bring. (*Applause.*)

Budget papers were then distributed to Honourable Members.

The Council then adjourned till Eleven of the Clock on Tuesday, the 2nd March, 1943.