

Friday, 31st March, 1944

COUNCIL OF STATE DEBATES

(OFFICIAL REPORT)

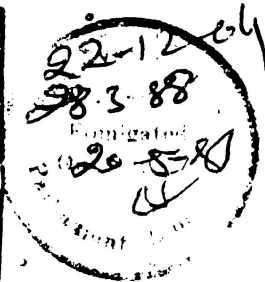
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(15th February to 6th April, 1944)

SIXTEENTH SESSION

OF THE

FOURTH COUNCIL OF STATE, 1944



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COUNCIL OF STATE

Friday, 31st March, 1944

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

INDIAN FINANCE BILL—*concl'd.*

THE HONOURABLE THE PRESIDENT: Further discussion on the Finance Bill will be resumed.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: In the course of this debate several questions have been raised which affect the fighting services for which I am responsible. I will try, Sir, to throw some light on these points as they seem to be of some concern to the Honourable Members who raised them.

The Honourable Mr. Kalikar referred to the discharge of cadets and officers ostensibly on the ground of inefficiency but really on account of their political record. Well, Sir, he has been misinformed. That action is not taken by the War Department or by me or by anybody else. Except in a few cases of men who after they have been commissioned have been found to have been concerned with subversive or revolutionary activities, the membership of ordinary peaceful political organisations is no bar to service in the armed forces. Removals on account of inefficiency are most carefully scrutinised and, when it is considered necessary to recommend the removal of an officer, that officer is always given the opportunity, as he should be given, to show reason why he should not be removed. He is given that opportunity. His case, and whatever reasons he may care to give if he does care to give reasons, is most carefully considered not only by his own Commanding Officer but by the Brigade Commander, the Divisional Commander, the General Officer Commanding-in-Chief, of whom there are four as you know, myself and finally by His Excellency the Viceroy, and I can assure you, Sir, that these cases are gone into with the utmost care. We also take great care to place officers who may be unsuitable for one position in another position for which they are more suitable. That often happens. So, before an officer is finally asked to resign, we do examine the possibility of putting him in another appointment in which he may be able to make good. The Government cannot accept the suggestion that these cases of removal of officers should be reviewed by the Federal Public Service Commission or any other extra-Army Tribunal. An officer's superiors alone are competent to assess an officer's value to the Army, and I do not think that we can depart from that principle. I would like to mention here that I am concerned with getting as many Indian commissioned officers as I can, and it would be strange indeed if I allowed any officer to be removed from service unless there were very good reasons for doing so; it would not be to my interest, or to the interest of the country, or to the interest of the Army. My Honourable friend Pandit Kunzru raised the same point, and here again I would ask him to accept my statement that the examination of such cases is as impartial as it can be; and it is very thorough. As the Honourable Member himself said, we must have a high standard. We cannot accept a low standard amongst our officers, Indian or European. As I have often said before, our men are amongst the best in the world, and their officers must be worthy of them. And I take it upon myself to see that they are worthy of them, and I intend to ensure this by every means in my power. This does not mean that there will be injustice. I will not tolerate injustice.

The same Honourable Member also said that Honourable Members of the House were suffering from lack of information about the situation on the Burma front, that is to say, about the operations now going on against the Japanese, and that Government had failed to take them into its confidence. And I think he also said that they were being treated as children. Well, Sir, I have much too good an opinion of the intelligence of my Honourable friend to treat him as a child. That is not a thing that anybody would dare to do. I have tried myself, whenever I have been given an opportunity to speak or to broadcast, to

[His Excellency the Commander-in-Chief.]

tell the truth and to give an unbiased account of the situation, and to give all the information I can. Of course there is certain detailed information which cannot be given, because if it was given it would be of value to the enemy; I think everybody understands that. Reference has been made to a statement made by a columnist in the United States that the fall of Imphal, for instance, would be of no importance. Well, Sir, I do not know what qualifications the gentleman has to speak on the subject, but I do not think they are as great as mine; and I would ask the House to believe me rather than him. I have just made a statement on the operational situation in another place, and I trust that that statement will be available to Honourable Members, and I would ask them, if they have time, to study it. I think it gives a fair and impartial picture of the situation as it exists today.

It is today a puzzling situation on the Burma front; and, as the Honourable Pandit Kunzru said, it looks queer, for example, that the Japanese should be advancing eastwards and that our troops should be advancing westwards. Queer things do happen in war—very queer things. But what has happened is this, that we have not exactly advanced westwards, except by air; we have flown troops into Burma behind the enemy lines, and they, having landed from aircraft, are now getting busy destroying and interrupting his communications. That is their business, and the effect of their efforts will, I have no doubt, make itself felt before long, to the great discomfort of the enemy; and I hope that that will have a large effect in helping to stop the enemy's westward advance.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU (United Provinces Northern: Non-Muhammadan): May I interrupt His Excellency and put a question to him with regard to the operations on the Eastern front? As I have not got the statement made by him in the Assembly before me, I do not know whether he dealt with the particular point on which I want information. It was stated in the press some time ago that the Japanese were moving towards Kohima, which is I believe mid-way between Manipur and Djamapur. If they are anywhere near Kohima, it is obvious that communications between Manipur and Djamapur will be seriously threatened. I hope that His Excellency the Commander-in-Chief will be able to give us some information on this point.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: Certainly. I have included that point in the full statement I have just made in the other House.

As regards the next point, whether the Army is representative of the nation or not, all I can say is that today the army, or rather the armed forces—that is the better way to put it, because we must include the air force and the navy as well—the armed forces are more widely based than ever before, and I think it would be fair to say that they represent all classes of the community. I can, if necessary, produce figures to show the proportion in which the armed forces draw their recruits from the various parts of the country; it is a very striking picture compared with what existed before the war.

The other point raised by the Honourable Member was the question whether discipline and enthusiasm depended on Regulations, or whether they depended on patriotism. Well, all I can say is that in my quite long experience as a soldier I have not found that discipline and enthusiasm can be based on Regulations; that is quite clear. I have been touring all over India a good deal lately, and everywhere I have been impressed by the spirit and the desire to make good that all classes, especially the new classes, have shown and are still showing today. It is a most remarkable demonstration of a spirit and a desire to show what they can do. It is not confined to any one class; it is widespread and universal. And it is certainly a spirit that is willingly displayed. It is not done under coercion. You cannot produce a spirit of that kind by coercion.

Then, another point which I would like to touch on is the question of weeding out of cadets for the Indian Air Force. It is quite true that a very considerable number of these cadets are weeded out in training. This is inevitable. If the standard of the cadets who are eventually to become officers is to be high enough, I am afraid it is inevitable. It applies equally to the R.A.F.; it is not confined

to the Indian Air Force only. Here again I would say that only the best will suffice; the mediocre will not do.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: Would it not be desirable in that case to have better preliminary methods of selection, instead of waiting to reject boys after they have received training for three or four or five months?

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: I was just going to mention the point. We have introduced lately new methods of selection which may help; I hope they will. We are also considering the introduction of the new R.A.F. system of ground tests and flying grading, and I hope they too will prevent the preliminary admission of unsatisfactory cadets; it is most desirable to do all that we possibly can to effect this, not only in the interests of the cadets themselves, but because it is economical.

As regards the question of unsympathetic treatment of cadets, I find that only one complaint of unsympathetic treatment has been received, and on investigation that proved to be groundless. In fact there is an impression, quite a general impression, that too much latitude is being allowed and that the training of some cadets is continued beyond reasonable limits. Well, that is dangerous as well as being uneconomical. And here again I would deprecate any attempt to lower the standard, which can only result in disaster eventually.

Again, my Honourable friend requested that Indian commissioned officers should be made use of to Indianise the higher ranks of the Army, and he also urged that there should be no reversion to the pre-war proportion of British to Indian officers. Again he was referring, I think, to the Indian Army and I presume that he was referring to the post-war Army. The composition and organisation of the post-war Army has not yet been considered in detail and for obvious reasons cannot yet be considered in detail. It depends on a good many unknown factors—constitutional factors and other factors. But I would like to point out that it is a fact that the ratio of Indian to British officers in the Indian Army is steadily increasing and has steadily increased throughout the war. Then there is the question of the promotion of British and Indian officers of the Indian Army. I will come to that in a minute. Before that I should like to say that the proportion of British to Indian Officers in the Indian Army proper today is about 1·3 to 1. That does not include British Service Officers who are attached temporarily to the Indian Army for the period of the war. They do not belong to it. They are attached to it to fill gaps. In 1939, that proportion was 5·5 to 1. It is now 1·3 to 1. As I said before, I am prepared to take every Indian officer I can get provided he is of the right stamp and fit to be a leader for our men who deserve nothing but the best, and I would like again to tell Honourable Members that we are not getting the stamp of men we want for our Indian officers. They are not coming forward. I spent recently two days at one of the new Selection Boards,—this one happened to be in Dehra Dun—watching the methods by which they tested the candidates, talking to the candidates themselves, lunching with them and generally acquainting myself with the machinery of selection and also trying to form some estimate of the quality of the candidates. I can only say that I was very disappointed and I am seriously alarmed at the poor quality of the candidates who are now coming forward. I am taking steps to improve the machinery to secure candidates of the right stamp and I think they will have effect. But this is a matter in which I feel that perhaps all of us can help, if we so desire. I am satisfied that the methods of selection are just and fair and as thorough as they could be. I was very impressed by them.

My Honourable friend mentioned the question of Indians in high command and high staff appointments. Here again I can only say—I have said it before—that this matter is under my constant,—in fact almost daily—care and watch, and the situation is steadily improving. The situation is dependent on certain factors which I cannot alter. Those factors are that an officer who aspires to high command or a high staff appointment, which is equally important, must

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have experience and knowledge and he can only gain that experience and knowledge in the great majority of cases, unless he is a Napoleon, by serving for a reasonable length of time in lower formations and in units, *i.e.*, battalions, cavalry regiments, artillery batteries and so forth. At the moment, our most senior Indian officers, those who came out of Sandhurst originally when the King's Indian Commissioned Officer was started, are just coming into the promotion zone for higher appointments. But I would like to say that I cannot accept any suggestion that I should advance an officer simply because he was an Indian. To me all officers are the same, whether they are British or Indian and I choose them for their efficiency and suitability for the job. I think that agrees with my Honourable friend's own desire and his own expressed criticism. Our senior officers are now getting on to about 23 or 24 years' service and that brings them into the promotion zone for higher appointments and they are being considered for these appointments now. For instance, a Brigade Commander in war-time is aged 43 or 45,—very much younger than in peace-time. I myself was 49 before I got command of a brigade. But experience and knowledge are vital attributes and before I can consent to entrust the lives of men to any officer, a Brigadier or Divisional Commander or even a high staff officer like a General Staff Officer of the first grade. It is on their judgment and on their efficiency that the lives of our men depend in war and unless they are fully qualified for these appointments I would never consent to put them into that position. But I do assure this House that this is a matter which is constantly engaging my attention and I will ask Honourable Members to leave it to me to ensure that our Indian officers receive fairplay. They will, if I can possibly ensure it.

As regards the posting of Indian officers to General Headquarters, the Honourable Pandit was quite right when he said that the experience and knowledge gained in General Headquarters is very valuable in most cases, especially if the officer is to go on to high command. That is quite true and that is another point which I will watch. But I would like to add that General Headquarters is not the only place for an officer to serve. In war, the staffs of active formations, *i.e.*, Divisions and Corps which are fighting the enemy, are the places where real experience is gained, and in selecting officers for appointment I always see whether an officer has war experience or not. If he has, he has a better chance. For, after all, a soldier's business is to fight. If you ask the officers themselves, a great majority of them will say that they would rather be serving in an active formation than sitting in G.H.Q. I know I would.

As regards the formation of entirely Indian Divisions or an Indian Corps, this will come possibly in time. But, in my opinion, for what it is worth, to attempt such an experiment now in the middle of this war would be unwise in the extreme. It would entail a tremendous amount of dislocation and reshuffling of units and reappointment of officers of all grades and appointments and to form such a division today would immobilise for many months, and would prevent them from taking part in the war for many months, units which are actually now fighting or are fit to fight today, and will be going into battle tomorrow. In any event, I rather doubt the desirability of this at the present moment. The close association of Indian and British units and personnel in the same formation has proved most successful in the past, as many a hard-fought battle will show, and if the average Indian officer, the Viceroy's Commissioned Officer or the soldier, is asked to say what he thinks of the proposal, I think a good many of them will say, "No, let us stay as we are." I think they will resist the suggestion at the moment.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: His Excellency the Commander-in-Chief seems to be labouring under a misapprehension. When I suggested the formation of an Indian Division under an Indian Major-General, I did not mean that the composition of the division may not be what the composition of a division is at present. It may be a mixed division consisting of both British and Indian troops. But that is no reason why this division should not be commanded by an Indian Major-General.

HIS EXCELLENCY THE COMMANDER-IN-CHIEF: I beg your pardon; I am sorry I misunderstood you. As regards the appointment of Indian officers to higher command, as I said, I hope that will come; I am sure that
12 Noon. it will come. As regards the future organisation of the armed forces of India, I have no doubt whatever that Government will welcome the advice and help of the members of this House and of the other House too and of course of the Defence Consultative Committee. As the Honourable Member said, that Committee was initiated by me and it would be stupid indeed if I did not make the fullest use of its advice and help and I intend to do so.

In conclusion, Sir, I do not know what Honourable Members who were good enough to come to my house the other day thought of the bearing and attitude of the men of the fighting services. (*Applause.*) For myself I can only say I saw nothing but cheerful willingness to do their best and to prove their worth as men. To my mind their efficiency was very evident and I would like to add that again to my mind their bearing was that of free men prepared to do their duty by the country; and I can only say that I see the same spirit among our fighting men everywhere I go in this great country and I am very proud of them. (*Applause.*)

THE HONOURABLE MR. C. E. JONES (Finance Secretary): Sir, I have listened to this two-day debate on the Motion for consideration of the Finance Bill with considerable interest and the most careful attention. A large variety of points have been covered in the discussion. Those which gave rise to the greatest amount of feeling were constitutional and political questions, with which I hardly feel myself qualified to deal. The Honourable the Leader of the House has already replied on behalf of Government to questions of that nature. Perhaps I may be excused if I mention, as a layman, that I cannot help feeling that Honourable Members who are so unsparing in their language in attacking Government would at least recognise that there is something to be said on the other side, that there are difficulties inherent in the situation the solving of which is rendered more difficult by the fact that we are in the midst of a total war with the enemy at our gates. Thus, purely as a layman, I could not avoid the feeling that it would be well if a larger statesmanship could put first things first by concentrating on winning the war and sinking differences until that had been achieved, which, I was pleased to note, was the line taken up among others by the Honourable Mr. Mahendra Lal Das. I recognise with appreciation the definite statements that have been made that an adverse vote on this Bill is not intended to indicate opposition to the war effort. I appreciate this because at least it gives some common ground on which to discuss matters. I would ask Honourable Members again to remember that it is the tempo of the war effort in India which determines the volume and the rate of outgoings of rupees in this country, and that the tempo of the war effort in India has to be regulated by military and operational needs rather than by financial considerations. Granted that, I think such suggestions are at once ruled out as the imposition of a maximum limit to the accretion of sterling balances or the curtailment of expenditure in India on H. M. G.'s behalf to the amount of rupee finance which H.M.G. is able to raise for herself, because any suggestion of that nature is ultimately equivalent to the imposition of an arbitrary limit to India's war effort irrespective of the military position. But in any case even if Honourable Members who are perhaps against this Bill are unable to go as far as I have suggested I would suggest that co-operation with Government in maintaining the economic stability of the country irrespective of political differences by assisting in all the Government's anti-inflationary measures would seem to be a fundamental duty and an obligation on every patriot with the real interests of the country and of its peoples at heart. (*Applause.*) Remembering the economic perils through which we have passed, it is surely up to every person of influence, including political leaders, to save the country from the dangers and suffering which inevitably result from an acute inflationary position, of which a potential is admittedly in existence

[Mr. C. E. Jones.]

today. We are witnessing even at the present moment strange happenings in the bullion market in Bombay. The facts are, as the House is aware, that sales of gold have been made by the Reserve Bank for some time at a price which was regarded as not unfair to the investor having regard to the rise in prices of other commodities. The sales were made with the dual object of providing the U.S. Government and H.M.G. with rupees for use on their war expenditure in this country and also as an anti-inflationary measure. The end of last week and the early days of this have witnessed the results of scare-mongering by interested parties on the minds of a credulous public. A wave of speculative buying of gold has developed with the result that the market price of gold has outstripped the price at which the Reserve Bank were prepared to sell reasonable amounts for investors as opposed to speculators. Clearly in the circumstances it would have been useless to continue to supply the normal demand at a price well below the prevailing market rates, so the Bank deemed it expedient to allow the market to find its own level through the tender system. When this unreasonable speculative fever has abated, the price of gold will undoubtedly subside to the loss of certain unfortunate people and the Bank will be able to continue sales at more reasonable rates.

THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa: Muhammadan): Who will pocket the difference, Sir?

THE HONOURABLE MR. C. E. JONES: I have much ground to cover today and I would be glad if I could be saved from interruptions.

THE HONOURABLE THE PRESIDENT: I object to the interruptions.

THE HONOURABLE MR. HOSSAIN IMAM: Mr. Jones interrupted me from my second page. I am interrupting on his third page. I have the report with me and it shows how much Mr. Jones interrupted me.

THE HONOURABLE MR. C. E. JONES: I interrupted mainly for correcting—

THE HONOURABLE THE PRESIDENT: Your own friends interrupted you.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: Government members did put a number of questions to him. I must say that in fairness to him.

THE HONOURABLE MR. C. E. JONES: When I interrupted the Honourable Member, it was to correct misapprehensions at the time; it was not for eliciting what the Honourable Member meant.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: There was no real interruption of Mr. Jones' remarks. I think the question that was put by my Honourable friend Mr. Hossain Imam was in the line of the argument that was being followed by Mr. Jones.

THE HONOURABLE MR. C. E. JONES: I did not understand the question, Sir, and if I were to elicit what exactly the Honourable Member meant and to what he referred when prices are in the present state of flux, my speech would degenerate into an argument.

I should, however, like to make it clear that if these developments indicate a move to frustrate the anti-inflationary policy of the Government, then Government will be prepared to deal with them by the most drastic measures, as they dealt with a similar situation in the cotton market last year. (Applause.) Government are determined not to let the bullion market get out of hand and they will take whatever steps may be necessary to prevent this, should the behaviour of some sections of the public render this necessary in the public interest. This reinforces, Sir, my plea for wholesale and widespread co-operation with the Government in their various anti-inflationary measures, and I put it to Honourable Members that to deny co-operation and then charge the Government with failure to solve this most difficult and intractable of all economic problems strikes a layman as hardly playing the game.

Apart from the constitutional and political questions, Sir, questions of financial policy and also a number of questions regarding details of financial and accounting arrangements have been raised during the course of the debate. In regard to these I find myself under a certain amount of difficulty in framing

my reply. After the general discussion on the Budget I confined my reply to broad subject heads and my reply occupied the space of one hour. Two Honourable Members of this House who had raised a number of individual points and specific questions have now reproached me for failing to deal with their points in that reply. In order to avoid a charge of discourtesy I propose to repair that omission, although in doing so I must ask the indulgence of the House for taking up their time for the purpose and of the Honourable Members concerned for being very brief in doing so.

I think, in fairness, the Honourable Sir Gopaldaswami Ayyangar will agree that the time-limit brought his speech to an abrupt end before he could develop his point about the inflationary gap. That aspect of the position I will deal with later on in this speech. I cannot refrain, however, from referring to the way in which he announced to the House his discovery that the closing balance for next year is shown in the accounts as Rs. 510 crores. The Honourable Member said this information was "tucked away in some corner", and that no prominent attention had been drawn to it anywhere. Sir, the Finance Department have nothing to conceal and we do not present our accounts in a hole-and-corner manner which is designed to hide relevant information. The proper place for showing the closing balance for next year was in the Statement of Receipts and Disbursements of the Government of India appearing on pages 2 and 3 of the Budget Statement. The closing balance was shown at the bottom of that statement on the right-hand side and the figure of 1944-45 naturally occupied the last column in that statement. Its position in the Budget Statement was in the very place in which any one accustomed to reading accounts would look for it. Moreover, in the Explanatory Memorandum prepared by the Finance Department, on page 27 in paragraph 2, specific mention is made of the size of our balances as estimated at the close of the Budget year. I would submit, Sir, to the Honourable Member that a responsible Department of the Government of India might well be spared reflections on its *bona fides* of this nature in the way in which it is discharging its official duties.

THE HONOURABLE SIR GOPALASWAMI AYYANGAR (Madras: Non-Mubammadan): I am not interrupting the Honourable Mr. Jones because it would waste time. I wish only to make it clear that there was no insinuation at all against the Finance Department in what I said.

THE HONOURABLE MR. C. E. JONES: I am grateful to the Honourable Member for his assurance, and would like to add that the Finance Department is ever willing to assist Honourable Members, and I personally am at all times accessible to any Honourable Member in my office, for giving any explanation which they may require or any information which it is in my power and which I am at liberty to give.

In passing, also, I would like to welcome the increasing interest which I find Honourable Members are taking in the Explanatory Memorandum. This Memorandum, thanks to the energy and enterprise of my Budget Officer, Mr. Sunderasan, is being progressively enlarged, and we propose to continue this progressive enlargement of the Explanatory Memorandum until it takes the form of a useful *vade mecum* or encyclopaedia of budgetary and financial information. (Applause.) If this is the desire of the House, my Department will be glad to consider any suggestions for its improvement which Honourable Members may have to make. (Applause.)

The Honourable Sir Gopaldaswami Ayyangar made the point that India is meeting a larger share of her Defence expenditure from current revenues than certain other countries. So far as our information goes, in this he is substantially correct, although our information regarding Defence expenditure in other countries is neither complete nor up to date, nor is a true comparison possible in view of the different systems of administration and the different methods of presenting Budgets. I gather, however, from the figures given by him that he was referring to the statistics of revenue and Defence expenditure of certain

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selected countries given in paragraph 2 of the Reserve Bank Report on Currency and Finance for 1942-43. These figures only take us up to and including the year 1942-43 but possibly the Honourable Member may have noticed, although he did not mention, that those figures show that India has not increased her taxation any higher than other countries—in fact, less than most—and that the rise in India's Defence expenditure is very much lower than the other countries which have been selected for purposes of that statement. These facts, in addition to the comparatively low standard of finances in this country relative to its size and population, operate as an important qualification to the deduction which the Honourable Member has drawn from those figures.

In his speech in the General Budget debate the Honourable Pandit Kunzru asked for certain information and he repeated his request for that information during the course of the current debate. I have since received a typescript of his speech, and I will now very briefly give a sort of running commentary on the points he raised.

The first one was as regards the variations between budget expectations and the revised estimates or the actuals of defence expenditure. These variations have been explained in the Honourable the Finance Member's Budget Speech; I would refer the Honourable Member to paragraph 21 and to paragraphs 35 to 38. The Honourable Member is aware that the Budget only provides for known commitments, and nothing for the unforeseen contingencies of war which are inevitably considerable. Even as regards the cost of the forces within the ceiling, it should be realised that that cost may vary within the ceiling according to changes in composition of the forces, according to changes in scale, re-equipment with later weapons, increases in prices, increases in pay, liberalisation of rations, and other factors.

The next point the Honourable Member raised was the principles on which the ceiling strengths of the forces for the defence of India are fixed. That again has been explained, I submit, Sir, by the Honourable the Finance Member in clear and unequivocal terms, and I can add very little to what the Honourable the Finance Member has said. The principles applied are of a purely military nature, taking into account all relevant strategic considerations as to requirements for local defence. The principles are such as a General Staff, in the application of its special expertise, applies to assessing such a problem in any likely theatre of operations, a task which they are constantly performing, and in respect of which financial considerations naturally do not enter at all.

The next point the Honourable Member raised was the alleged lack of consistency between a reduction of expenditure on civil defence and a rise in Defence expenditure, particularly expenditure on airfields and the air forces. The Honourable Member is, however, aware that the air-raid precaution measures were designed to meet the air threat to India both from the west and from the east. With the failure of the German campaign in the Caucasus, the threat from the west receded, thus enabling A.R.P. measures to be curtailed. It by no means follows from this, however, that India is in a position to reduce the land and air forces maintained in India for her defence against subsequent threats from other directions.

The next point raised by the Honourable Pandit Kunzru was as to why the entire expenditure on airfields should be debited to Indian revenues. On this matter, I think the Honourable Member has been misinformed. Only the airfield programme framed for the defence of India is being charged to India; to which I have to add a rider that airfields required for and operated by the United States forces in India are provided for the American forces under the Mutual Aid arrangements. His Excellency the Commander-in-Chief is the expert member of the Government of India. He is constitutionally Government's adviser on what forces are needed for the country's defence. And I

suggest that, in England, no Member of Parliament would or could dispute expert military opinion on such a subject.

The next point was that part of the Defence expenditure debited to Indian revenues is really due to Imperial needs and should be transferred to His Majesty's Government. This suspicion seems to me somewhat vague. The position is that the present role of the forces in India is exclusively for the defence of India, and they are within the ceiling of the forces which His Excellency the Commander-in-Chief has already fixed as being necessary for that purpose.

Another question was whether the cost of increase in the line capacity of the B. & A. Railway was likely to be debited entirely to Indian revenues. The answer is in the negative.

The last question was whether African troops are paid at the same rates as Indian soldiers or at a higher rate. In reply to this, I would invite the Honourable Member's attention to the answer given to him by His Excellency the Commander-in-Chief on the 24th November, 1943, in reply to question No. 154. The broad generalisation is that the rates for Indian troops are generally higher than those for African troops.

That, Sir, brings me up to date, and I will now deal with the points raised in the present debate. I will endeavour not to cover again the ground covered in my reply to the general discussion. First I will deal with certain explanatory points which do not conveniently fit in under the more important of the broad heads. Dealing, firstly, with the various points raised by the Honourable Mr. Hossain Imam, he complained of delay in the receipt of the C.B.R. report. The position is that the All-India Income-tax Reports have not been published since 1941-42, and will not be published until the termination of hostilities, due to shortage of paper. The Honourable Member is aware that there is a paper shortage; he has in this very debate urged Government to increase the proportion of available paper released to the civil community, which inevitably means a reduction of paper consumed by Government for official purposes. This policy inevitably means cutting out some publications which have been issued in the past. It is not a question whether a publication is important or useful or not; it is a question of relative importance. It is on that ground and on that ground alone that this publication has been stopped.

THE HONOURABLE MR. HOSSAIN IMAM: Will not the Honourable Member publish a summary?

THE HONOURABLE MR. C. E. JONES: The statistical portion—the mechanised all-India figures—are ready for printing by the end of July each year, but the date of their release depends entirely on an overworked press. Again, on grounds of shortage of paper and on the advice of the Labour Department, we are only printing sufficient of these preliminary statistical tables for departmental use, although a few copies will be supplied to Chambers of Commerce.

THE HONOURABLE MR. HOSSAIN IMAM: And to the Library?

THE HONOURABLE MR. C. E. JONES: I suggest that if the Honourable Member is not satisfied with the position as I have represented it, he should raise it with the Department concerned.

The next point raised was the apparent loss of 44.84 lakhs in respect of opium for the year 1944-45, as shown in Statement V on page 4 of the Explanatory Memorandum. The Honourable Member said that this showed clearly that there had been a lack of vigilance at a time when financial vigilance was extremely necessary and desirable.

I am afraid he has misread the accounts. The statement is not a profit and loss statement or a statement of commercial working. It is merely a statement of total expenditure and total revenue. If the Honourable Member had chanced to notice sub-heads (C) and (D) on page 15 of the Book of Demands, 1944-45, he would have found that the expenditure of Rs. 124.84 lakhs shown as expenditure for this year includes Rs. 109 lakhs of advance payments to

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cultivators in the United Provinces and Malwa for expansion of cultivation, and this expenditure will be off-set in the ensuing season by receipts of opium. The loss is therefore apparent and not real. I agree that the method of exhibiting the accounts in this way is rather confusing. The Department had already noticed it and we are taking steps to alter the existing arrangements in the accounts in this respect. Far from there being a lack of vigilance it is clear from this that we are taking active steps to expand the cultivation of opium to cope with the increasing demands for opium products.

THE HONOURABLE MR. HOSSAIN IMAM: Will the Honourable Member say something about the current year—Rs. 1,09,000?

THE HONOURABLE MR. C. E. JONES: I would rather not devote my limited time to that now.

The third point which raised the Honourable Member's ire, which he has twice mentioned in this House, is what he calls the ramp, or some similar term, in respect of refund of duty on petrol for the Defence forces of India consumed for India's purposes. I can assure the Honourable Member that all motor spirit and most of the aviation spirit required for the Defence Services in India is obtained from British or British Empire sources. Supply from the U. S. A. on lease-lend is confined mainly to lubricants and a relatively insignificant amount of aviation spirit. This petrol being required for the Air Forces in India for the defence of India was being debited naturally, as one would suppose, to Indian revenues. The amount debited included the duty. The customs duty is 15 annas per gallon as against the price up to the point of landing of 7 annas per gallon. But as the petrol is not imported by the Defence Services direct but by the oil companies from whom the Defence Services purchase their requirements, it had to be purchased duty paid. In February, 1943, His Majesty's Government agreed that with effect from the 1st April, 1942, they would supply India free with all the petrol required for India's defence purposes. That meant that this duty which is paid on petrol imported into the country had to be written back because, unless the Honourable Member allows his zeal for extracting the last rupee of profit out of the war to outrun his discretion and his judgment, I take it for granted that he will agree that when His Majesty's Government give 7 annas worth of petrol, they should be under no obligation to pay 15 annas into the revenues of the Government of India. That is all there is in respect of this matter. It is a natural corollary from a gesture of generosity on the part of His Majesty's Government.

I should have liked, Sir, to have dealt at some length with the carefully prepared and very interesting speech of the Honourable Sir Gopalaswami Ayyangar. Unfortunately, the Honourable Member left his speech until practically the close of this debate. It was read from a manuscript at a rate which I recognise was very fair to the shorthand-writer but which was a little too fast for my long-hand notes. I kept pace as well as I could and I will offer a few comments on the various points that I managed to take down before I had to give up the unequal struggle. If the Honourable Member had found it possible to make his rather long speech, which was full of technical matter and fairly full of figures, a little earlier in the debate and had been able to supply me with a copy, I could have dealt with it more fully and more effectively. The Honourable Member gave at some length figures showing the ways and means position of the Government of India from which he deduced that with balances standing as they are and as we expect them to be, there was no need to impose additional taxation. That means in essence that we would be justified in financing current needs by borrowing without attempting to fortify our revenue position. It means no more than that in substance. That is a matter of policy, Sir, which I will deal with a little later. I was somewhat surprised to hear a little later that the Honourable Member contemplated that the additional receipts from the enhanced railway fares, if imposed, should seriously be regarded as accruing to the benefit of the general revenues of the Government of India.

The third point the Honourable Member made was that taxation in India is progressing at a rate comparable with that in the United Kingdom whereas borrowing has proceeded at a slower rate in British India. From that he deduced that we should refrain from further taxation and concentrate on borrowing, presumably to get the same progressive tendency in respect of both taxation and borrowing in India as obtains in the United Kingdom. But I would ask the Honourable Member if he sees no advantage in strengthening the revenue position to meet the demands for post-war development in a country which is so backward as India, which is in a far more backward condition industrially and socially than England. There were incidentally one or two misapprehensions in the Honourable Member's figures. He added to the estimated closing balance 44 crores of rupee securities in the Government Cash Balance Investment Account. Those are only securities of the Government of India. We hold our own securities to that extent, and they merely represent loan scrip which will be put out in due course just the same as the tap loans are sold from time to time. He also added to this figure 18 crores, which is no more than an accounting adjustment representing six years' theoretical contribution from revenue for Reduction and Avoidance of Debt. The one point on which I should like to speak at greater length is regarding what he called the inflationary gap, because it is evident that the Honourable Member and the Government do not quite mean the same thing when using the same term. The inflationary gap is the difference between all the funds which are put out in India and all the funds that are drawn off from the people in this country. The way we measure the inflationary gap is this. We total the amounts paid out in rupees, first the revenue and capital expenditure of Government; secondly, expenditure in India on behalf of the Allied Governments; and thirdly, sterling and dollar purchases by the Reserve Bank of India. It is obvious that if an exporting firm hands sterling bills to the Reserve Bank and gets credited with rupees, that means an outgoing of rupees into the country. We then total the amount of rupees drawn off. The first item is the receipts from taxation and other receipts by Government; the second, borrowings of all kinds, including net balance of treasury bill transactions; thirdly, bullion sales on behalf of Government; and fourthly, any increase in the cash holdings of the scheduled banks, because if they increase their holdings, it means that money has been drawn from the people of the country in the form of bank deposits. The net difference between those two totals is our estimate of the inflationary gap in the country. As was stated in the Budget speech this gap has been running at about 250 crores a year, although the arrangements that we are making will reduce it considerably during the coming year while the proposals which we have brought forward in connection with the Budget are designed to a very large extent to close the gap altogether. With that explanation, I think the Honourable Member will probably agree that when he says that the mopping up and borrowing of rupees should not be resorted to for the purpose of piling up cash balances he is looking at the problem from an entirely different point of view from that of the Government of India. We have to mop up surplus purchasing power by taxation and by borrowing, and by such other ways as we can if we are to deal with the menace of inflation at all. It was mentioned in the Budget speech that the object of our borrowing at the present time is not so much to cover the budgetary gap as to fill in the inflationary gap so as to bring up the intaking of rupees to equal the outgoing of rupees and so prevent a constantly growing pressure on prices. Granted that this is the duty of Government—and I think most Honourable Members will agree—the result is a growth in our balances since the Government of India is not like a Provincial Government or a local body in the country who can invest their money with a higher Government. We cannot invest this money and we naturally have to keep it as credit with the Reserve Bank of India, pending its utilisation later on for postwar reconstruction or for meeting future deficit or for whatever purpose it may subsequently be required. I was interested when the Honourable Member made the suggestion that the Government should buy sterling from the Reserve Bank and return a portion

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of their large cash balance to the Reserve Bank for the purpose. I was interested because that was in effect what the Government themselves proposed to the Legislature a year ago. It was proposed that sterling should be bought from the Reserve Bank, which would then become the property of, and under the control of, Government, as a sort of post-war sterling reconstruction fund. That sterling would then not be available for any importer to purchase for purposes which perhaps would run contrary to the planned development of the country which Government might have under consideration. It would be taken away from the Reserve Bank and held on Government account, with the advantage incidentally of being invested in appropriate maturities and so of increasing our interest receipts in England. The proposal was however turned down by the Legislature. I have never yet understood why it was turned down. It seemed to me an eminently sound proposition, but the Legislature objected to it, their objections presumably being based largely on suspicion. The proposal has since then remained in cold storage.

The last point that I noted was Sir Gopalaswami Ayyangar's suggestion that, since we possess balances largely in excess of the probable inflationary gap for next year, we should be able to avoid the issue of new currency next year. I think that suggestion rather betokens a misapprehension as to the nature of our closing balances. The closing balances do not represent so many notes and so many rupee coins in a till which can be opened and the money taken out and used. These balances are in the form of a credit with the Reserve Bank. The Reserve Bank has a liability to us to that extent, and the Reserve Bank possesses corresponding assets in the form of sterling holdings in England. If and when we want to spend from these balances, we draw on the Reserve Bank and the Reserve Bank naturally has to issue fresh currency to meet the demand. The balances cannot be used without the issue of new currency. If that were done in the present inflationary conditions, it would clearly accentuate present inflationary tendencies; whereas if it were done in post-war conditions, when possibly prices are falling, there may be unemployment and possibly the beginnings of a slump, Government post-war activity drawing on those balances would put further money out into the country at a time when it is needed instead of at a time when it might do serious harm. That I suggest, Sir, would be in the real interests of this country.

THE HONOURABLE SIR GOPALASWAMI AYYANGAR: Sir, as this is a very important matter, will you kindly let me put one or two questions so that I may understand the position of Government in regard to these balances? I do not want to interrupt too much, but I simply want him to clarify what he has been attempting to say in the last few sentences:

THE HONOURABLE THE PRESIDENT: Yes.

THE HONOURABLE SIR GOPALASWAMI AYYANGAR: I take it that this closing balance of about 500 crores at the end of next year is going to be at the Central Government's deposit credit with the Reserve Bank?

THE HONOURABLE MR. C. E. JONES: The figure of 500 crores means that, if the expectations on which our estimates are based as regards receipts from taxation and receipts from borrowing—and the later have been framed on a generous basis—materialise, we shall close next year with a credit with the Reserve Bank of the amount shown.

THE HONOURABLE SIR GOPALASWAMI AYYANGAR: I take it that as Government will not be requiring this large amount for expenditure of its own the Reserve Bank will be able to utilise this large amount which Government have at credit with them for the purpose of providing rupee currency for the sterling which is passed on to them in London by His Majesty's Government?

THE HONOURABLE MR. C. E. JONES: This large amount, Sir, is not a volume of money. It is a liability so far as the Reserve Bank is concerned—a liability to Government. It is offset by sterling assets in England.

THE HONOURABLE SIR GOPALASWAMI AYYANGAR: It is a liability no doubt but it is money which is at the disposal of the Reserve Bank of India and if you do not require it for your own expenditure the Reserve Bank is

able to utilise it for issuing rupees in India against sterling credits in England. To that extent they can certainly reduce the volume of new currency they may otherwise have to issue.

THE HONOURABLE MR. C. E. JONES: Every claim that we make on the Reserve Bank against that credit has to be paid by the issue of new currency.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: May I put a question to my Honourable friend? Is any part of this balance of Rs. 510 crores, with which the year 1944-45 is expected to close, to be used for the payment of war purchases on behalf of His Majesty's Government?

THE HONOURABLE MR. C. E. JONES: Sir, no proposals have yet been formulated for the use of this sum. We have, however, indicated, in the figures which the Honourable the Finance Member gave in his Budget Speech, the possibilities of post-war reconstruction finance. We indicated that after the first two or three years immediately following the war, which will certainly be years of deficit because revenues will shrink while military expenditure cannot be reduced proportionately straightaway, we will still have a credit balance which with subsequent revenue surpluses might give us over the next quinquennium starting from that date a total of something of the order of Rs. 1,000 crores to spend on post-war reconstruction, including recurring commitments possibly up to Rs. 100 crores per annum. That is the only point in respect of which the utilisation of this credit has been actively considered, Sir.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: I am still tempted to put a question to my Honourable friend. How do the Government propose to stop the inflationary gap? If they do not mean to use any part of the money borrowed by them in India to pay for the war purchases made by His Majesty's Government, how do they propose to stop the inflationary gap?

THE HONOURABLE MR. C. E. JONES: Certainly, there will be an immediate ways and means use of the money in the interim. That is where the immediate anti-inflationary effect of our borrowing comes in.

THE HONOURABLE SIR GOPALASWAMI AYYANGAR: This is so important that I would put one more question. What the Honourable Mr. Jones has suggested, I am afraid, would increase inflation. If I understand him aright, the Reserve Bank automatically issues fresh currency in India against sterling credits which are made over to them in England.

THE HONOURABLE MR. C. E. JONES: No, Sir. That is not the position. The Reserve Bank issues new currency when demands for payment on Government account are presented to it against the credit existing to the Government in the Reserve Bank's accounts.

I come now, Sir, to the main heads on which questions have been raised or comment offered in this debate. The first one I should like to deal with is as regards war expenditure. Here, again, Sir, as I dealt with this subject at some length in my reply to the General Budget debate I shall try to refrain from repeating what I said on that occasion.

Many Honourable Members have commented on what they call the under-estimation of defence expenditure. I dealt with that complaint earlier in this speech, but I should like here to mention that certain other members made exactly similar complaints about the underestimation of revenue. I submit, Sir, that these criticisms, to some extent at least, cancel each other out and I leave it to Honourable Members concerned to argue it out among themselves. I should like to point out that all estimating is difficult in war-time, but anticipations are upset to a greater extent on the Defence expenditure side than on the revenue side, because war development are far more unpredictable from their very nature than the variations of our revenue within the country. Because of that, and having regard to the heavy intrinsic volume of Defence expenditure and moreover the uncertainty regarding the exact apportionment of the total Defence expenditure between His Majesty's Government and the Government of India till after the close of the year, the result in general is a net

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 increase in the anticipated revenue deficit. I think, Sir, that is only to be expected.

The next important point concerns His Majesty's Government's contribution to India's war effort. The Honourable Mr. Sapru desired to know the cost of this to His Majesty's Government. I agree with him that the figures of His Majesty's Government's expenditure in India is no proper measure—in fact, it is no measure at all—of the assistance which is rendered to India's defence by His Majesty's Government. The figures of His Majesty's Government's expenditure in this country comprise, firstly, His Majesty's Government's direct war expenditure in India—that is Defence expenditure proper—such as their share of joint war measures, works expenditure in India for His Majesty's Government and so on; secondly, supply expenditure for His Majesty's Government, including the handling and freight charges which also are debited to His Majesty's Government; and, thirdly, the expenditure incurred in India on Forces oversea. It is difficult to analyse this fully, but in any case it would give no idea whatsoever of the contribution which His Majesty's Government is making to the direct defence of India because so much of that contribution does not take the form of expenditure in India at all. I would like to mention some of the main items which make up His Majesty's Government's contribution to the direct defence of India. First of all, there is the British Navy and the naval defence of India, the cost of which to His Majesty's Government is immense and cannot be estimated and the value of which to India cannot be exaggerated. That is the first substantial item. The second is the gift, gratis, of aircraft. A rough computation shows that the value of this must be somewhere about Rs. 100 crores for squadrons for India's defence. That is aircraft obtained free of charge from His Majesty's Government from the United Kingdom and does not include aircraft obtained on Lease-Lend from America. I would mention as typical costs: the cost of a heavy bomber—Rs. 5½ lakhs; the cost of a medium bomber—Rs. 4½ lakhs; the cost of a two-engine fighter—Rs. 3 lakhs; the cost of a dive bomber—Rs. 4 lakhs.

The next item is the training of the R. A. F. The R. A. F. personnel come out here ready trained. The whole cost of their training is borne by His Majesty's Government, and the cost of training airmen is heavy. It has been estimated that the cost of turning out a trained pilot is something like £5,000; and that is apart from the loss of aircraft involved in the training. The third contribution made is in respect of guns and munitions. An immense number of anti-aircraft guns have been received. Several categories of guns have been received, and those included in one category alone cost well over Rs. 10 crores. We have received large numbers of 25-pounders costing several crores, and there are innumerable other categories under this general head.

The next item that we are given free of charge by His Majesty's Government is petrol and oil, the cost of which comes to something like Rs. 16 or Rs. 17 crores a year. We also get a considerable amount of non-indigenous food such as tinned stuffs which are required for operational purposes for the forces in India. We are getting free from His Majesty's Government something like 100,000 tons of this in this year alone. Next, I would mention specialised equipment of all sorts: signal equipment such as wireless and telegraph equipment; engineering equipment such as excavating machinery, electrical machinery and bridge-building equipment. The quantities of this specialised equipment are immense and the cost is tremendous, because all of it is expensive stuff. Then there is the question of ammunition. We are getting something like 4,000 tons a month, as well as a large number of air bombs in addition.

I would in this connection stress that England is in this way giving India the equivalent of lease-lend on a tremendous scale, the cost of which cannot easily be evaluated, without attaching any lease-lend obligations; whereas India gives nothing in the way of reciprocal aid to His Majesty's Government, as India does to the United States Government. India charges in full for everything

supplied to His Majesty's Government, even for the use of Indian forces who are fighting for India's defence beyond Indian frontiers—and that is the proper place for real defensive fighting. And yet, Sir, we receive perpetual complaints of an unfavourable settlement! I submit that further comment is superfluous.

The second main topic that has been raised, possibly inevitably, by many speakers is that of inflation. This subject has already been discussed so often and so fully that it is a little difficult to know what to say if repetition is to be avoided. I would, however, stress again the supreme importance, in promoting and precipitating inflationary conditions, of the ruthless and selfish exploitation of an over-credulous psychology by unscrupulous and anti-social elements of the community who seize the slightest opportunity or excuse to make huge profits for themselves without regard to the sufferings of their fellow-countrymen. The history of the past year speaks for itself and indicates the supreme need for the greatest and widest possible measure of co-operation in the various measures, however drastic, which Government take for dealing with them. Sectional interests cannot be allowed to demand and secure a special favoured position at the expense of the rest of the community. Simultaneously action to the farthest possible degree on every possible front is essential. Of the various methods of tackling inflation, taxation and borrowing stand pre-eminent and to them I shall refer presently. As regards rationing and price control, the Food Department has been formed and they are active in that most vital sphere, the most vital sphere of all; and their difficulties and achievements have been the subject of frequent debate and are well-known. Here pre-eminently the unqualified support of every right-thinking man in the country is required. The Industries and Civil Supplies Department, to whom tribute has deservedly been paid by the Honourable Sir Ramunni Menon and the Honourable Sir Shantidas Askuran, have achieved and are achieving substantial results in the matter of equitable control over prices and distribution of various commodities; cloth, drugs, and an ever-widening circle of other commodities—all these are well-known.

I would, however, point out that there are limitations to reliance on controls in the conditions of India for defeating inflation, as I pointed out in my Budget Speech. Reference is often made to the success of the controls in the United Kingdom, from which the moral is drawn that we need not bother so much about taxation and borrowing since we can do everything by organising controls. I feel constrained to point out that in the United Kingdom there is a strong social conscience and a reasonably enlightened community which welcomes and co-operates in controls, and a public opinion which is united in demanding severe, almost savage, punishment for infringement. They have highly organised trade and industry, which gives focal points in every case at which control can be applied. There is an administrative staff adequate and equal to the administration and enforcement of any controls that may be introduced. And lastly, but by no means least, there is widespread and universal support in the savings campaigns that are launched. We see there a universal refusal to tolerate, let alone excuse, obstruction or sabotage of any kind or in any form. These conditions, Sir, I submit, should be borne in mind when comparisons are made with what has been done in the United Kingdom and deductions are attempted to be drawn therefrom.

Special mention has been made by several speakers of the problem of increasing the supply of consumer goods. Different views have been expressed. But I should like to say that Government are taking active action in two directions. First, imports are being arranged as far as possible having regard to the severe limitations on available shipping and the fact that concentration of production on war supply in the United Kingdom and the United States renders increased production of consumer goods difficult there and export licences are granted only on proof of essentiality. Articles on whose import Government are concentrating are those that are in general demand not only for the agricultural and industrial populations but also for the middle classes who are an equally important section of the community. These imports of consumer goods are

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frequently criticised by people who, I think, forget that India was far from being self-sufficient in consumer goods before the war and who think that we can postpone anti-inflationary action until India becomes self-sufficient in the supply of consumer goods. In this matter, however, care is taken to limit import to articles, first, which are essentials, or at least of importance in maintaining health and morale; secondly, the production of which in India is either not possible for want of productive capacity, or alternatively existing productive capacity cannot be increased immediately to meet full internal civilian demand—e.g., shortage of raw materials (steel and coal), component parts, etc. Examples of this type of import are bicycles, hurricane lamps, paper, sewing machines, etc. This policy ensures that the limited quantity of consumer goods which is all that can be imported will not adversely affect any Indian industry either directly or indirectly. On the other hand, every possible action is being taken to speed up the production of consumer goods in India. Production has been increased, first, by releasing capacity formerly employed on war orders; and secondly, by improving total capacity by supplies of additional raw materials and coal. As examples of the first type I would mention woollen garments, matches and canvas rubber soled shoes. As examples of the second category, i.e., where total capacity of indigenous industries has been increased, I would mention a number of drugs in respect of which India has now become self-sufficient, and was largely dependent on imports before the war. Chemicals required for civil industries such as potassium chlorate, chlorine, calcium chloride, magnesium sulphate, sodium thiosulphate, sodium hyposulphate, etc.—India is now self-sufficient in all these chemicals. She has also largely increased her production of sulphuric acid, soda ash and caustic soda. As regards cotton cloth, the House is aware that production has been increased by the provision of more ample raw materials, by rationalisation, by increased supply of mill stores and so on as also the working of double shifts. As regards paper, we had a considerable measure of success and increased production by 10,000 tons per year until the coal difficulty set the clock back and reduced active production to below the previous figure. But the extra productive capacity is there and when these difficulties, which we believe are temporary, disappear, the increased output can be at once obtained. Then, Government have taken further action in respect of a number of items which have not yet borne fruit but which are expected to bear fruit in the near future. I would mention, for example, soap, matches, household utensils in considerable quantities, glassware, steel for agricultural implements, umbrellas and bicycles. That, Sir, I think the House will agree, represents a considerable measure of achievement in this all-important sphere of meeting the demand for consumer goods as an anti-inflationary measure.

I now come to the question of taxation. Before I deal with questions of general policy I would like first to refer to a few points that have been made in respect of specific proposals. The House listened very attentively to the forceful speech made by the Honourable Sir Shantidas Askuran regarding the effect of the income-tax and excess profits tax proposals. His first point was with reference to the increase of one anna in the rate of company super-tax the object of which, as he correctly suggested, is the limitation of dividends. He went on to suggest that this constituted a hardship in the case of shareholders in limited companies as compared with individuals carrying on business, for there would be no corresponding restriction on the latter persons as to the amount of profits that they could choose to spend. The position is not, however, as feared, for the individual who makes excess profits will, in general, be liable to higher rates of income-tax and super-tax than those applicable to companies. So much is this the case that it has been found necessary in the case of assesseees other than companies to reduce the proportion of their excess profits that is to be deposited with the Government under section 10 of the Finance Act, 1942.

Another class of assessee who was mentioned is the person whose profits during the war years are less than his standard profits, a class referred to as sub-

standard assessee. It is, of course, a fact that the assessee who makes no excess profits will not be entitled to share in the refunds that will after the war be due to excess profits taxpayers, but no Government has ever, so far, proceeded in taxation matters on the basis that sub-standard assessee should be subsidized out of the proceeds of the taxation paid by their more fortunate or more efficient fellows. In so far as such business men after paying current rates of tax have a net income of less than accrued to them before the war they are in the same position as a large number of other assessee.

On the general question as to the heavy burden of the taxation and deposit payments imposed by the Finance Bill and its deterrent effect upon business activity, I may remind the House that the position of the excess profits taxpayer is not nearly so bad as it is often represented to be. In the first place, the compulsory deposit is in fact and in intention a compulsory reserve which will be available to the depositor soon after the war is over; in the second place, even the excess profits tax paid is not wholly lost, for 1/10th of it is also refundable after the end of the war; and in the third place, the comparisons that are often made between total business profits and standard profits fail to take cognizance of two important factors, the first, that in a number of cases standard profits allowed under section 26(1) of the Excess Profits Tax Act very considerably exceed the actual profits of the immediately pre-war years and the second that, in the majority of cases, the standard profits are very considerably increased by the allowance for increased capital.

The Honourable Mr. Parker asked for an assurance which I have no difficulty whatsoever in giving. The assurance asked for was, that Government will watch the administration and operation of the new legislation and should any defects come to light during the year, steps will be taken to remedy them. I can give that assurance on behalf of Government and I can assure Honourable Members that if urgent action is found to be called for, urgent action will be taken.

I come now to some of the points that were raised in respect of our central excise proposals. I would like in the first place to assure the Honourable Sir David Devadoss that there is no real foundation for apprehension that the new excises may be operated in such a manner as to cause inconvenience to growers. As stated by the Honourable the Finance Member in his reply to the general debate on the Finance Bill, Government are fully mindful of the importance of tea and coffee in India's agricultural economy; and even from the standpoint of revenue considerations alone they would always take care that the production of excisable goods is in no way hampered or discouraged. The Excise Administration itself is fully alive to the necessity for securing the goodwill and whole-hearted co-operation of producers of all kinds and will, in its own interests, do all that it can to facilitate the operations of all classes of producers. The Standing Orders enjoin that all officers should show every possible consideration to the producers and traders, large and small, with whom they have official dealings, and supervising officers can be trusted to see that these orders are faithfully observed. Moreover, the excise administration in respect of tea and coffee will be conducted in close co-operation with the Market Expansion Boards. Tea, like other factory products, will be chargeable with duty on emergence from the factory. But coffee will not be taxed unless it is marketed; and, since all sales of coffee are controlled by the Indian Coffee Board, there will be no scope for harassment of small producers on the part of subordinate officials.

With regard to small producers of betel nuts, that portion of the crop which is grown on small holdings will for the greater part be intended for personal consumption of the grower and his household, and the excise staff will be concerned only with the balance which is marketed. As with other unmanufactured excisable products, betel nuts will become liable to duty as soon as they are ready for sale; but both on grounds of administrative convenience and in order as far as possible to ensure that the tax is not borne by the grower, thereby possibly discouraging production, the levy of the duty will ordinarily be postponed until the nuts are about to enter the distribution markets.

[Mr. C. E. Jones.]

As regards tobacco, it is true that the rate of duty on certain kinds of country tobacco has been trebled, whereas the other rates in the schedule have at the most been doubled. The reason for this is that the retail prices of these varieties have been found to be such that the old rate of 1 anna a lb. was disproportionately low, and even the new rate of 3 annas a lb. will be extremely modest by comparison. For example, it will be recalled that an Honourable Member of this House stated during the debate on the Tobacco (Excise Duty) Bill last year that certain forms of *hookah* tobacco are sold at as much as Rs. 80 a seer. Experience during the past year has shown that *hookah* tobacco products are frequently sold for Rs. 2-8-0 per lb., and that certain forms of chewing tobacco are sold for no less than Rs. 110 per lb. Compared with these figures, the incidence of the duty is extremely low. The consumer of the cheaper *hookah* tobacco products will moreover be protected by the facts, first, that they contain only a comparatively small proportion of tobacco (and it is only the actual tobacco content which is taxed; and, secondly, that they are largely manufactured from tobacco which will fall for assessment under item 9(1) (4), that is to say, at the rate of 1 anna a lb. as hitherto.

Two Honourable Members referred to the incidence of this tax on the individual and in doing so quoted from a newspaper account which, I fear, misreported what the Honourable the Finance Member said on the subject. He did not say that the incidence of the tobacco tax amounted to 1 anna per head per month. What he actually said was that taken over the population the incidence of the tax on tea and coffee will amount to only one anna per head per annum and that, even if we suppose that only one person in ten consumes these beverages in this country, the incidence will still be less than 1 anna per head per month. He explained that the position is much the same with betel nuts; that, taking the population as a whole, the incidence of the tax is only 1 anna per head per annum; and that even assuming that only one person in four consumes betel nuts, the incidence on each consumer will be only 4 annas a year. He did not refer to the *per capita* incidence of the tobacco excise but explained that, considered in relation to retail prices, the new rates of duty on tobacco are in no way excessive and are in some cases insignificant. On the consumer also the incidence will be slight. Taking the figures of average consumption given in the Tobacco Marketing Report, the incidence of the new rates on *hookah* and chewing tobaccos will be less than 8 annas per head per annum.

THE HONOURABLE RAI BAHADUR SRI NARAIN MAHTHA (Bihar: Non-Muhammadan): While the Honourable Member is on this subject of tobacco, may I ask just one question? While Government have chosen to raise the incidence of the tax on cigarette tobacco to only Rs. 2-4-0, why have they decided to raise the tax on *hookah* tobacco, which is actual tobacco, to Rs. 3-4-0?

THE HONOURABLE MR. C. E. JONES: I have just explained that, Sir; and I suggest that the Honourable Member reads my speech when it is published.

My time is nearly gone and I shall be very brief in dealing with the general question of taxation. The main theme of this year's budget is a concentrated attack on the financial side on inflation in the present and a forward policy in preparation for a serious national development drive in the future, as soon as conditions permit. It is universally admitted by experts in public finance and economics that taxation is the most effective form of anti-inflationary action. It is more effective than borrowing, because it reaches down to a level which a savings drive cannot reach. The argument that the low incidence of this taxation deprives these measures of their anti-inflationary value is, I must submit, unsound and untenable. In dealing with inflation every possible front has to be attacked and it is the cumulative effect of individual measures, each of which may be small in itself, which tells in the sum total. These 23½ crores of new taxation give the maximum anti-inflationary value because every bit of it will be money which will otherwise directly press on prices and it is worth far more than many times that amount of investment of bank money. The measures taken by Government have to be regarded as a whole and it would be

fatal to whittle them down or pare off individual proposals on the ground that individually they happen to be small. As I have said, it is the total effect which tells. Still more, Sir, do these considerations apply to the building up of our finances for post-war reconstruction. This aspect I dwelt on at length in my Budget Speech and I would like Honourable Members to read that portion of the speech again. We cannot dream of vast social services in this country in future without realistically facing the problem of their recurring cost, running may be into hundreds of crores, which will constitute an annual charge on the current revenues of the country. We do not solve this problem by saying that we can borrow an amount equivalent to one year's recurring expenditure and calling it working capital. Borrowing, or providing by inflation, Rs. 500 crores does not allow you to meet a recurring charge of Rs. 500 crores per annum. With income-tax assesses in this country in a proportion to the total population of the country of 1 in 1,000, a financial structure commensurate with peoples hopes and expectations for the future which was limited to direct taxation would be about as stable as a pyramid standing on its apex. Granted the need for indirect taxation for dealing with the present and for building up for the future, I submit, Sir, that the Budget proposals are as fair and as reasonable as could be devised. Some Honourable Members seem to agree with this but oppose the proposals because no reconstruction plan is yet ready. That may be true, Sir, but is it not wise to prepare in advance? As I have already mentioned, the first one or two post-war years are bound to be years of heavy deficit when the additional revenue from these measures and our balances will help us to carry through. But, though no plan is yet ready, the Government are by no means idle. They are actively going ahead with real planning. Planning is not merely the formulation in general terms of a target. That is easy. Planning involves drudgery, getting down to detail, collecting material, and this all takes time. Considerable progress has been made in the collection of data and material which will be required for the formulation of plans and without which it would be impossible to think ahead. In a number of cases preliminary enquiries have been made either by officers or special Committees set up for the purpose, and their recommendations and proposals are under consideration. Reports on the Development of Roads, Road Transport, Civil Aviation and Education have already been published, and a perusal of these will indicate the magnitude of the problems to be dealt with. Reports on Agriculture, Forestry and Fisheries will be ready shortly and, when the Health Service and Development Committee presided over by Sir Joseph Bhore has finished its labours, a comprehensive report on the post-war development of Public Health will be available as a basis for future planning. With a view to furnishing an idea to the general public of what is being done a full and detailed progress report on Reconstruction Planning will be issued shortly and made available for sale. In addition, a brief pamphlet summarising the progress made will also be published for the benefit of those who do not wish, or cannot find the time, to read the fuller and more detailed report. Special Development Officers are being appointed in the various Departments concerned to prepare these detailed plans in consultation with Provinces and States, commercial interests, etc. They will tour the Provinces and States armed with a directive from the Centre and will co-ordinate the planning over the country as a whole. In this way the Government hope to accelerate progress. I can assure the House that the Government of India are serious about the importance of reconstruction planning and the necessity for speeding it up. I would refer those who too easily and unthinkingly condemn Government for dilatoriness in introducing a completely matured plan to the authors of the "Bombay Plan" who recognise that the 15 years of their "plan" covers only the execution of the plan and does not include the time required for the necessary preparatory work, which they estimate at about three to five years.

THE HONOURABLE MR. HOSSAIN IMAM: Today is Friday, Sir, and if the Honourable Member has a long speech to make the House can adjourn now.

THE HONOURABLE THE PRESIDENT I cannot interrupt him. If you have followed his speech you can see that he is going to finish shortly.

THE HONOURABLE MR. C. E. JONES: I shall take less than five minutes now. The Government are taking post-war reconstruction seriously, but I would ask Honourable Members: Are they serious, who oppose these financial proposals which Government have brought forward as financial preparation for post-war development? I would ask the same question with the emphasis shifted from the second word to the first: Are they really serious? If they are, and the country is, serious over post-war development on the scale which is under discussion in the country at the present time, the country must recognise that the period of heavy Government expenditure lies ahead rather than behind us and it is as certain as anything can be that India will have left behind for ever the regime of low taxation. It is then surely high time, as my Honourable friend Sir Ramunni Menon pointed out, to start building up a system of public finance which is broad-based, capable of expansion as conditions permit and need arises, and so enable the desired development to be embarked upon. The proposals in the Bill, Sir, contribute materially to that end and at the same time will make a valuable and substantial contribution towards the solution of our present inflationary difficulties. I, therefore, submit, Sir, that on the broadest financial grounds alone the proposals are absolutely defensible and in that spirit, and for the reasons that I have given, I commend this Motion to the House for its acceptance. (Applause.)

THE HONOURABLE THE PRESIDENT: Motion made:—

"That the Bill to give effect to the financial proposals of the Central Government for the year beginning on the 1st day of April, 1944, in the form recommended by the Governor General, be taken into consideration."

Question put: the Council divided:

AYES—27.

Ayers, Mr. C. W.
Banerjee, Hon. Mr. R. N.
Charanjit Singh, Hon. Raja.
Chinoy, Hon. Sir Rahimtoola.
Commander-in-Chief, His Excellency the.
Conran-Smith, Hon. Mr. E.
Das, Hon. Mr. M. L.
Das, Hon. Rai Bahadur Satyendra Kumar.
Devadoss, Hon. Sir David.
Greenfield, Hon. Mr. H.
Ghosal, Hon. Sir Josna.
Hissamuddin Bahadur, Hon. Lt.-Col. Sir.
Jogendra Singh, Hon. Sir.
Jones, Hon. Mr. C. E.

Khurshid Ali Khan, Hon. Nawabzada.
Lal, Hon. Mr. Shavax A.
Mahomed Usman, Hon. Sir.
Menon, Hon. Sir Ramunni.
Muhammad Hussain, Hon. Khan Bahadur
Mian Ali Baksh.
Mukherjee, Hon. Sir Satya Charan.
Noon, Hon. Sir Firoz Khan.
Parker, Hon. Mr. R. H.
Patro, Hon. Sir A. P.
Pillai, Hon. Mr. N. R.
Roy, Hon. Sir Satyendra Nath.
Sen, Hon. Mr. B. R.
Sobha Singh, Hon. Sardar Bahadur.

NOES—13.

Ayyangar, Hon. Sir Gopalaswami.
Das, Hon. Mr. N. K.
Hossain Imam, Hon. Mr.
Kalikar, Hon. Mr. V. V.
Kunzru, Hon. Pandit Hirday Nath.
Mahtha, Hon. Rai Bahadur Sri Narain.
Muhammad Husain, Hon. Haji Syed.

Padshah Sahib Bahadur, Hon. Saiyed
Mohamed.
Ram Saran Das, Hon. Rai Bahadur Lala.
Ray Chaudhury, Hon. K. Kumarsankar.
Rezai Karim, Hon. Moulvi A. Z. M.
Roy Chowdhury, Hon. Mr. Susil Kumar.
Sinha, Hon. Kumar Nripendra Narayan.

The Motion was adopted.

The Council then adjourned for Lunch till a Quarter Past Three of the Clock.

The Council re-assembled after Lunch at a Quarter Past Three of the Clock, the Honourable the President in the Chair.

THE HONOURABLE THE PRESIDENT: We will now proceed with the Second Reading

Clauses 8 to 8 were added to the Bill.

The First Schedule, Parts I and II, were added to the Bill.

The Second Schedule, Parts I and II, were added to the Bill.

Clause 1 was added to the Bill.

The Title and Preamble were added to the Bill.

THE HONOURABLE MR. C. E. JONES: Sir, I move:—

"That the Bill, in the form recommended by the Governor General, be passed."

The Motion was adopted.

The Council then adjourned till Eleven of the Clock on Tuesday, the 4th April, 1944.