

Wednesday, 29th February, 1944

COUNCIL OF STATE DEBATES

(OFFICIAL REPORT)

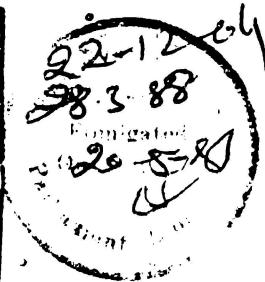
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OF THE

FOURTH COUNCIL OF STATE, 1944



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COUNCIL OF STATE

Wednesday, 29th February, 1944

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

MEMBER SWORN :

THE HONOURABLE SIR SATYENDRA NATH ROY (War Transport Secretary).

QUESTIONS AND ANSWERS.

RELIEF TO CIVILIAN INTERNEES IN JAPANESE HANDS.

113. THE HONOURABLE RAJA YUVERAJ DUTTA SINGH* : Have Government any information that the Vatican has persuaded the Japanese Government to permit representatives of the Holy See in Malaya, the Dutch East Indies and the Philippines to administer relief to civilian internees in those areas, and that funds were recently supplied to the Vatican for this purpose ?

Will Government kindly enquire into this and state if Indians in those areas come within the scope of relief foreshadowed above ?

THE HONOURABLE SIR MAHOMED USMAN : The answer to the first part of the question is yes.

The answer to the second part of the question is that the scheme applies equally to all British subjects in internment camps.

DETENTION OF MR. SURESH VAIDYA.

114. THE HONOURABLE RAJA YUVERAJ DUTTA SINGH* : (a) Is it a fact that an Indian journalist, Mr. Suresh Vaidya, who had returned his army enlistment notice, was recently arrested in England, on the charge of being an absentee from the British Army ? What are the facts of the case ?

(b) Are Indians in England liable to conscription for military service ; and has the National Service Armed Forces Act been extended to all British subjects resident in England for more than three months ?

(c) How many Indians in England have been called up for " National Service " in that country ?

THE HONOURABLE MR. R. N. BANERJEE : (a) The Honourable Member's attention is invited to the reply given to question No. 83 asked by the Honourable Mr. G. S. Motilal on the 21st February 1944.

(b) *First part.* Yes, but those who have been resident in that country for less than two years or who reside there for the purpose of attending a course of education or whose residence there is for temporary purposes only, are exempted.

Second part. By means of a defence regulation under the National Service Act, 1942, the prescribed period of residence for conscription is reduced to three months but this amendment does not apply to Indians resident in that country.

(c) Government has no information.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : Will they obtain that information ?

THE HONOURABLE MR. R. N. BANERJEE : Every endeavour will be made, Sir.

APPOINTMENT OF A EUROPEAN FIRM AS AGENTS FOR THE PURCHASE OF GUNNY AND SALTPETRE FOR MAURITIUS.

115. THE HONOURABLE MR. ABDOL RAZAK HAJEE ABDOL SUTTAR : Will Government state why a European firm has been appointed sole buying agents for the purchase of gunny and saltpetre for Mauritius when about 75 per cent. of these trades used to be enjoyed by Indian merchants ?

THE HONOURABLE MR. N. R. PILLAI : Enquiries are being made, and a reply will be laid on the table in due course.

*Asked by the Honourable Mr. V. V. Kalikar.

THE HONOURABLE MR. HOSSAIN IMAM: What kind of enquiries are being made?

(No reply.)

CULTIVATION OF RESERVE LAND IN ASSAM.

116. THE HONOURABLE MR. MOHENDRA LAL DAS: Will Government state (a) whether any lands constituting reserves in the Province of Assam are going to be thrown open for cultivation in pursuance of the "Grow More Food" campaign policy of Government? If so, whether for the purpose of accelerating the campaign the bringing in of pioneer labour force from Cochin and the Punjab is in contemplation?

(b) Whether the cultivable and fallow lands in other parts of India are going to be brought under cultivation under the "Grow More Food" campaign as is going to be done in the Province of Assam?

THE HONOURABLE SIR MAHOMED USMAN: (a) The policy of the Government of Assam as regards making more land available for cultivation and settlement is outlined in their Resolution No. RD3/43/13, dated the 24th August, 1943, a copy of which is laid on the table.

The bringing in of a pioneer force from Cochin or the Punjab is not under the consideration of the Government of India.

(b) Provincial Governments have been asked to examine the extent of old fallow lands, to investigate the causes of their cultivation being abandoned by the cultivators and to take remedial measures for bringing them under cultivation again.

Extract of the proceedings of the Government of Assam in the Revenue Department No. RD3/43/13, dated the 24th August, 1943.

RESOLUTION ON LAND SETTLEMENT.

The cultivated area in Assam has been increasing steadily for some time; and the present urgent need of growing more food, coupled with the desirability of increasing the revenues of the Province and of providing for an increased number of landless persons, have led Government to review the present policy in respect of land settlement. They are satisfied that, in the main, it is well calculated to secure the extension of the food-producing area while affording adequate protection to backward and minority communities. The main need is for an acceleration of the process by executive action, and for the amplification of the present policy in certain respects.

2. Government have accordingly decided:—

(a) in the districts of Kamrup and Darrang to encourage further settlements of the indigenous population in the submontane areas, and in other parts of the districts to add to the colonization area by opening more lands for the immigrant population, and particularly by deservicing lands reserved for professional graziers, when these are found to be surplus to requirements;

(b) in the district of Nowgong to proceed with the development scheme outlined in the Government of Assam's resolution of June, 1940, whereby blocks of land will be apportioned to different communities in proportion to their needs. Here also the surplus portions of professional grazing reserves will be opened to settlement in the same way;

(c) in the districts of Sibsagar and Lakhimpur to open surplus reserves and to encourage further settlement of waste land with the indigenous population.

3. A special officer is being appointed at once to examine the grazing reserves with a view to determining how far these are surplus to requirements. He will begin with the district of Kamrup and work up the Valley, making recommendations to Government as the examination proceeds. He will thereafter examine in consultation with the local Forest Officers the two Forest Reserves of Laokhoa and Orang in Nowgong and Darrang districts, with a view to see whether they should be disforested in whole or in part, for settlement in the same way as the remaining waste land to be thrown open in these two districts.

4. Government consider that in present circumstances the premium to be levied in respect of these new settlements should be fixed at Rs. 10 per bigha; but they propose to realize only Rs. 2 in the first year, collection being made after the harvest; the balance will be payable in equal instalments in the 2nd, 3rd, 4th and 5th year. No revenue will be realized, as at present during the first two years.

EXPORTS TO AND IMPORTS FROM DOLLAR COUNTRIES OF AMERICA.

117. THE HONOURABLE MR. HOSSAIN IMAM: Will Government state the figures of export to and imports from Dollar Countries of America year by year from 1940-41 up to date. If this is not possible only the excess of our export over imports may be given.

THE HONOURABLE MR. N. R. PILLAI: I lay a statement on the table.

Statement showing the total value of imports, exports and re-exports, into and from British India, on private account from and to Canada, Newfoundland, and the United States of America (including Alaska), during the years 1940-41 to 1942-43 and the first eight months of the current official year 1943-44.

	Imports.	Exports.	(In Rupees). Re-exports.
1940-41	30,01,09,547	29,07,39,897	6,04,87,227
1941-42	41,40,43,762	53,24,70,518	7,46,47,378
1942-43	24,68,32,757	31,57,13,028	2,12,47,309
1943-44 (eight months—April to November, 1943)	13,21,75,041	27,06,48,394	7,54,10,625

CONSTRUCTION OF A RAILWAY BRIDGE OVER THE BRAHMAPUTRA RIVER.

118. THE HONOURABLE MR. MOHENDRA LAL DAS: Will Government state whether the construction of the Railway Bridge over the Brahmaputra between Amingaon and Pandughat has been in contemplation of Government? If so, whether any arrangement will be made for foot traffic?

THE HONOURABLE SIR SATYENDRA NATH ROY: I regret that I am unable to give the information asked for as it would be useful to the enemy.

RECEIPTS AND SALES OF STANDARD CLOTH.

119. THE HONOURABLE MR. HOSSAIN IMAM: Will Government state the amount of standard cloth received and sold by each province up to 31st December, 1943? What steps, if any, have the Government of India taken or propose to take to increase sales in provinces where sales were smaller than in other provinces?

THE HONOURABLE MR. M. S. A. HYDARI: I lay on the table a statement showing approximate figures of receipts and sales of standard cloth in the provinces up to the 31st January, 1944. In order to increase sales where necessary the Government of India have asked Provincial Governments to consider the desirability of undertaking publicity drives.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: Are there any provinces which have intimated to the Government of India that they do not want standard cloth any more?

THE HONOURABLE MR. M. S. A. HYDARI: I do not think they have been so definite as to say that they do not want standard cloth. They have said that in view of the reductions in the prices of ordinary cloth standard cloth has become less popular and therefore their quotas should be reduced. This means that the cotton textile control is having effect and we are very glad to fall in with their wishes.

THE HONOURABLE MR. HOSSAIN IMAM: Has the reduction in prices of ordinary cloth been translated to standard cloth as well?

THE HONOURABLE MR. M. S. A. HYDARI: There have been successive reductions in the price of standard cloth.

THE HONOURABLE MR. HOSSAIN IMAM: You mean the new reduction which has been announced from the 1st of March of one anna and six pies per rupee?

THE HONOURABLE MR. M. S. A. HYDARI: That is for ordinary cloth.

Statement showing approximate figures of receipts and sales of Standard Cloth in the Provinces up to 31st January 1944.

Province.	Receipts. Yds.	Sales. Yds.	
1. Madras	57,600,000	20,800,000	
2. Bengal	43,490,000	31,250,000	
3. C. P.	27,000,000	10,000,000	
4. U. P.	77,000,000	34,000,000	
5. Bihar	43,000,000	22,000,000	
6. Assam	7,000,000	2,000,000	
7. Bombay	21,100,000	8,530,000	Up to 31-12-43.
8. N.-W. F. P.	7,193,552	2,841,181	
9. Sind	11,300,000	10,000,000	
10. Punjab	42,000,000	*14,344,186	*From Sept., 1943 to Jan., 1944 only.
11. Orissa	12,717,670	3,601,016	
TOTAL	349,401,222	159,366,363	

PRODUCTION OF PAPER AND STEPS TAKEN TO INCREASE PRODUCTION.

120. THE HONOURABLE MR. HOSSAIN IMAM: Will Government give the yearly production of paper in British India during the last three years (if possible provincewise)? What steps have Government taken to increase production?

THE HONOURABLE MR. M. S. A. HYDARI: A statement showing the production of paper in British India during each of the last three years is placed on the table of the House.

2. The following steps have been taken to assist paper mills to increase production:—

1. Rationalization of production by reducing the varieties of paper and board which should be manufactured.

2. Assistance in the supply of machinery and materials, both indigenous and imported, and in securing their transport to the mills.

3. Technical advice for effecting alterations in plants with the object of stepping up production.

THE HONOURABLE MR. HOSSAIN IMAM: Have Government taken any steps to increase transport facilities for the raw materials?

THE HONOURABLE MR. M. S. A. HYDARI: Yes, Sir.

THE HONOURABLE MR. HOSSAIN IMAM: Has the production increased?

THE HONOURABLE MR. M. S. A. HYDARI: Yes, Sir, as you will see from the figures which I have laid on the table.

Year.	<i>Production of paper and board in British India.</i>										Tons.	
1941-42	86,483
1942-43	90,261
1943-44*	68,789

STOCKS OF PAPER HELD BY MILLS.

121. THE HONOURABLE MR. HOSSAIN IMAM: Will Government state the stocks of paper held by each mill on 31st December, 1943, and 31st December, 1942 giving the amounts held on Government account and on trade account? What was the total weight and price of paper bought by Government from Indian mills in the year 1942-43 and in the first nine months of 1943-44?

THE HONOURABLE MR. H. C. PRIOR: (i) A statement showing the stocks held by the mills on the 31st December, 1942 and the 31st December, 1943 is laid on the table. Information regarding the quantities separately held on account of Government and the trade is not available.

(ii) With regard to the second part of the question, information regarding weight and price of paper purchased during 1942-43 is available only in respect of the Central Stationery Office, Calcutta. About 34,100 tons of paper were purchased at a cost of about Rs. 2,78 lakhs. No particulars about purchases by other Government administrations, i.e., the Provincial Governments, Indian States, etc., are available.

(iii) The weight of paper supplied by the paper mills during the first nine months of 1943-44 against various Government orders is approximately 45,976 tons. The cost has not yet been finally fixed.

THE HONOURABLE MR. HOSSAIN IMAM: I had asked for the total weight and price of paper bought by Government from Indian mills in both the years—1942-43 and the first nine months of 1943-44.

THE HONOURABLE MR. H. C. PRIOR: I regret that I have not got the figures.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: Are not the mills able to say how much of the paper held by them is for Government and how much for ordinary sale?

THE HONOURABLE MR. H. C. PRIOR: It is impossible to say that with reference to the stocks at the end of the year, because the paper in stock is not specifically allotted to Government or to private individuals.

* Figures for 9 months only, i.e., from April to December, 1943.

Serial No.	Name of the Mill.	Stock on 31st December, 1942 approximately.	Stock on 31st December, 1943.
		Tons.	Tons.
1.	Titaghur Paper Mills	1,310	1,310
2.	Bengal Paper Mills	333	252
3.	India Paper Pulp Co.	792	941
4.	Shree Gopal Paper Mills	412	1,056
5.	Orient Paper Mills	783	639
6.	Upper India Couper Paper Mills	198	175
7.	Star Paper Mills	460	1,105
8.	Deccan Paper Mills	353	446
9.	Gujarat Paper Mills	33	87
10.	Dalmia Paper Mills	531	1,078
11.	Andhra Paper Mills	Information not available	220
12.	Pandur Paper Mills	582	435
13.	Mysore Paper Mills	Information not available.	238
14.	Sipah Paper Mills	Information not available.	Information not available. On the 15-12-43 stock was 290 tons.

IMPORT OF CONSUMER GOODS.

122. THE HONOURABLE MR. HOSSAIN IMAM: Will Government state what steps they have taken or propose to take to increase the import of consumer goods, specially of medicines, electric bulbs, woollens, hosiery and hardware?

THE HONOURABLE MR. N. R. PILLAI: Under the Import Trade Control system which has been in force in India since May, 1949, supplies of all kinds of imported goods have been restricted. The restrictions were in the first place applied only to imports from difficult currency countries; but later on when production in the supplier countries was turning over more and more to war supplies, and again when shipping difficulties were intensified, the restrictions imposed under the Import Trade Control system were applied to imports from practically all sources and it became necessary from time to time to apply them with increasing severity.

2. Inasmuch as fairly large quantities of consumer goods are normally maintained in stock in this country, and also inasmuch as many of them must be classed as non-essential or luxury goods which can be fairly easily dispensed with, the effect of these overtightening import restrictions fell most heavily on consumer goods. Indeed, for a time, when the shipping position was at its most serious, imports of consumer goods from abroad were reduced almost to vanishing point. As a result, existing stocks were rapidly used up; and as India herself is not in position wholly to meet the demand for these goods, prices rose to abnormal heights.

3. In order to rectify this position, Government seized the opportunity presented by the recent improvement in the shipping position to make immediate arrangements for an increase in imports of consumer goods. The limitations imposed by the supply position in the main supplier countries of course remain, but within those limits, and consistently with the demand in India and the possibility of supply from local sources, Government have asked for as large quantities of consumer goods as possible to be made available to India.

4. In the case of the United Kingdom, extra shipping space became available somewhat suddenly; and in order to take immediate advantage of it, without wasting the time involved in the issue of import licences, placing orders, etc., Government made temporary arrangements with the authorities in the United Kingdom whereby they would ship any consumer goods as soon as they became available for India, and import licences would be issued in India on the receipt of advice of shipment. These special arrangements come to an end at the end of February; but meanwhile the issue of import licences has been expanded, and this expansion will have had its effect in augmenting the supply of goods available for India.

5. As regards the goods specifically mentioned by the Honourable Member, the position is that medicines are now coming forward in fairly satisfactory quantities, while arrangements have been made for the supply of electric bulbs from the United Kingdom and the United States of America, which, together with the bulbs locally produced, is expected to meet essential requirements. Efforts are being

made to secure an increase in the United Kingdom allocation of woollen goods to India, but in regard to hosiery no special steps are being taken as India is expected to be self-sufficient in this commodity. Hardware is available only in small quantities, but the United Kingdom authorities have been requested to make the maximum possible allocation to India.

AMOUNT OF MONEY SPENT IN ADVERTISEMENTS BY THE DEPARTMENT OF INFORMATION AND BROADCASTING AND BY OTHER DEPARTMENTS.

123. **THE HONOURABLE MR. HOSSAIN IMAM :** (a) Will Government state the amount of money spent in Government advertisements of each Department during the nine months of 1943-44 and the amounts paid to English, Hindi and Urdu newspapers ? (b) Is there any Central office for this and what are the names of Government agents (publicity) through whom advertisement is placed ? (c) What is the commission paid to each agent ? (d) Is there any approved list of newspapers and a black list, if so what are the names of English and Urdu black listed papers ?

THE HONOURABLE SIR MAHOMED USMAN : (1) The information relating to the amount of money spent in Press Advertisements by the Department of Information and Broadcasting and by other Departments through the Information and Broadcasting Department during the first nine months of the financial year 1943-44, the amounts paid to English, Hindi and Urdu newspapers, and the advertising agents used are placed on the table.

(2) The advertisements have been placed by the Advertising Consultant to the Government of India in the Department of Information and Broadcasting.

(3) No commission is paid by Government for newspaper space to these agents. The agents draw their commission from newspapers.

(4) An approved list of newspapers is maintained on the basis of circulation.

(5) There are no papers which are black listed.

THE HONOURABLE MR. HOSSAIN IMAM : What is the criterion for placing a newspaper on the approved list ?

THE HONOURABLE SIR MAHOMED USMAN : I have already answered that : the basis of circulation.

	Rs.	A.	P.
Department of Information and Broadcasting	5,49,699	0	0
Railway Board	10,200	0	0
Labour Department	6,136	0	0
Finance Department	2,10,708	0	0
Posts and Telegraphs Department	8,952	0	0
War Department	3,528	0	0
TOTAL	7,89,223	0	0

(2) The amounts paid to English, Hindi and Urdu newspapers are :—

	Rs.	A.	P.
English papers	3,91,254	0	0
Hindi papers	54,610	0	0
Urdu papers	85,410	0	0

IMPORTS OF BARLEY FROM IRAQ.

124. **THE HONOURABLE MR. G. S. MOTILAL :** (a) Will Government state whether barley was imported from Iran or any other country during the last six months ? If so, how much and at what price ? How has it been disposed of ?

(b) Has its quality been examined, if so, what is the report ?

(c) Is it being forced on people in some parts of India through rationing ? If so, in which places ?

(d) What steps do Government propose to take to mitigate reasonable complaints of the citizens of Bombay ?

THE HONOURABLE MR. B. R. SEN : (a) Yes. 127,000 tons were imported. It has been allotted partly to the Defence Services and partly to deficit areas. It is not in the public interest to disclose the price as negotiations are still proceeding.

(b) The Iraq barley normally contains some black grains. The latter are grown mainly in North Iraq and a mixture is inevitable—10 per cent. to 30 per cent. is normal. The quality is quite suitable for human consumption and is much the

same as that of ordinary Indian barley except for the presence of the black grained variety.

(c) Pound and milled barley is normally consumed mixed with wheat flour and gram flour throughout a large part of India. It is being issued as part of the wheat ration in Bombay and will be similarly issued in other areas.

(d) The matter was discussed in a recent meeting of the Food Advisory Council of the Bombay Government. On the recommendation of the Food Advisory Council, the Bombay Government have since decided to put dehusked barley on the market side by side with barley in husk with effect from the end of this month. Dehusked barley will be sold at a slightly higher price than husked barley.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: Have any food-grains been sent from India to Iraq in return for the barley bought from Iran?

THE HONOURABLE MR. B. R. SEN: Not so far as I am aware.

THE HONOURABLE MR. HOSSAIN IMAM: Why was barley imported from Iraq?

THE HONOURABLE MR. B. R. SEN: Because it is easier to import from a country like Iraq than from a distant country.

THE HONOURABLE MR. HOSSAIN IMAM: Was not wheat available in Sind, which is nearer still?

THE HONOURABLE MR. B. R. SEN: We wanted some foodgrains from overseas.

THE HONOURABLE MR. HOSSAIN IMAM: Will the price be paid in sterling or in gold?

THE HONOURABLE MR. B. R. SEN: I am unable to say.

THE HONOURABLE MR. HOSSAIN IMAM: Have we any agreement with the Iraq Government in respect of our purchases and payments?

THE HONOURABLE MR. B. R. SEN: No, Sir.

RATIONING OF BARLEY IN BOMBAY.

125. THE HONOURABLE MR. G. S. MOTILAL: (a) Did the Bombay Government protest against 25 per cent. barley being given along with wheat as ration to the people of Bombay?

(b) Did the Government of India insist on rationing of barley? If so, for what reasons?

(c) Have the Government of India seen the report of discussion on the subject in the municipal Corporation of Bombay on the 3rd February?

THE HONOURABLE MR. B. R. SEN: (a) The Government of Bombay themselves fixed the proportion of barley to wheat in the ration.

(b) The Government of India allotted to the Government of Bombay and to other Governments a quota of barley with the intention that it should be used to supplement supplies of wheat.

(c) Yes.

THE HONOURABLE MR. G. S. MOTILAL: Did the Government of Bombay protest against the allotment of barley?

THE HONOURABLE MR. B. R. SEN: No, Sir.

RATIONING OF BARLEY IN BOMBAY.

126. THE HONOURABLE MR. G. S. MOTILAL: (a) Is it a fact that the barley given as part of rationed supply was originally purchased for mules?

(b) Why is it not unhusked before giving it in ration?

THE HONOURABLE MR. B. R. SEN: (a) No, Sir.

(b) Most barley consumed in India is milled with wheat and other foodgrains and is not unhusked before grinding.

RATIONING OF BARLEY IN BOMBAY.

127. THE HONOURABLE MR. G. S. MOTILAL: (a) Will Government state whether it is the damaged barley that is being supplied as part of the rationed food-grains in Bombay or whether it is of very inferior quality or both?

(b) What steps do the Government propose to take in the matter?

(c) Will that barley be given in Delhi also?

(d) How much of it is still in stock with different provincial Governments ?

(e) Can it not be utilised for feeding animals where animals are fed on other better grains ?

THE HONOURABLE MR. B. R. SEN : (a) It is neither damaged nor of inferior quality.

(b) Does not arise.

(c) The composition of the Delhi ration has not been decided.

(d) The Government of India are not aware of the exact quantities of barley held by various Provincial Governments. The information has been called for.

(e) Barley is already used widely in India as food both for men and for animals.

THE HONOURABLE MR. G. S. MOTILAL : Is it used in the Province of Bombay ?

THE HONOURABLE MR. B. R. SEN : It is being used in the Province of Bombay now.

THE HONOURABLE MR. G. S. MOTILAL : That is, after it is supplied in the rationing scheme. Was it used in Bombay before ?

THE HONOURABLE MR. B. R. SEN : It is used in different parts of India as food for human beings.

THE HONOURABLE MR. G. S. MOTILAL : Why then is it not given only to those parts where it is used ?

THE HONOURABLE MR. B. R. SEN : Barley is being used in those parts of India.

STATEMENT LAID ON THE TABLE.

COMMERCIAL TREATIES AND NOTES.

THE HONOURABLE MR. N. R. PILLAI (Commerce Secretary) : Sir, I lay on the table a further statement of Commercial Treaties and Notes affecting India. The agreements mentioned under items 1 and 2 of Part II are also laid on the table.

Statement of Commercial Treaties and Notes affecting India.

PART I.

Agreements under which the products of India receive most-favoured-Nation treatment.

Countries which are parties to the Agreement.	Nature and date of Agreement.	Description.	Remarks.
U. K. and Egypt	Exchange of Notes dated 16th February, 1943 and 22nd March, 1943.	Commercial	These notes provide for the prolongation of the Provisional Commercial Agreement concluded between those Governments by the Exchange of Notes, dated 5th and 7th June, 1930, until the 16th February, 1944, unless previously replaced by a treaty regulating definitely the commercial relations between the two countries.

PART II.

Agreements to which India is a party.

Countries which are parties to the Agreement.	Nature of Agreement.	Description.	Date of Agreement.
1. U. K., India and China.	Treaty (with Exchange of Notes and Agreed Minute).	Relinquishment of extra-territorial rights in China, and the Regulation of Related Matters.	11th January, 1943.
2. U. K., India and Netherlands.	Agreement	Extending the Inter-Governmental Rubber Agreement of 1934 (subsequently amended and expanded) for a further period of 4 months from 31st December, 1943.	22nd December, 1943.

PART III.

Denunciation of Treaties.

Nil.

TREATY.

His Majesty the King of Great Britain, Ireland and of the British Dominions beyond the Seas, Emperor of India, and His Excellency the President of the National Government of the Republic of China :

Being desirous of defining more clearly in a spirit of friendship the general relations between them, and for this purpose to settle certain matters relating to jurisdiction in China ;

Have decided to conclude a Treaty for this purpose and to that end have appointed as their Plenipotentiaries :

His Majesty the King of Great Britain, Ireland and of the British Dominions beyond the Seas, Emperor of India (hereinafter referred to as His Majesty the King) :

For the United Kingdom of Great Britain and Northern Ireland :

His Excellency, Sir Horace James Seymour, K.C.M.G., C.V.O., His Majesty's Ambassador Extraordinary and Plenipotentiary to the Republic of China ;

For India :

Hugh Edward Richardson, Esq., an officer of the Indian Political Service ;

His Excellency the President of the National Government of Republic of China :

H. E. Doctor Tse Vung Soeng, Minister for Foreign Affairs of the Republic of China ; Who, having communicated to each other their full powers, found to be in good and due form, have agreed as follows :—

Article 1.

(1) The territories of the High Contracting Parties to which the present Treaty applies are, on the part of His Majesty the King, the United Kingdom of Great Britain and Northern Ireland, India, all colonies, overseas territories, protectorates of His Majesty, all territories under His protection or suzerainty and all mandated territories in respect of which the mandate is exercised by His Government in the United Kingdom ; and on the part of His Excellency the President of the National Government of the Republic of China, all the territories of the Republic of China. Any reference in subsequent articles of the present Treaty to the territories of one or the other High Contracting Party shall be deemed to relate to those territories of that High Contracting Party to which the present Treaty applies.

(2) In the present Treaty, the term "nationals of the one (or of the other) High Contracting Party" shall in relations to His Majesty the King mean all British subjects and all British protected persons belonging to the territories to which the present Treaty applies ; and in relation to the Republic of China, all nationals of the Republic of China.

(3) The expression "companies of the one (or of the other) High Contracting Party" shall for the purpose of the present Treaty be interpreted as meaning limited liability and other companies, partnerships and associations constituted under the law of the territories of that High Contracting Party to which the present Treaty applies.

Article 2.

All those provisions of treaties or agreements in force between His Majesty the King and His Excellency the President of the National Government of the Republic of China which authorise His Majesty or His representatives to exercise jurisdiction over nationals or companies of His Majesty in the territory of the Republic of China are hereby abrogated. Nationals and companies of His Majesty the King shall be subject in the territory of the Republic of China to the jurisdiction of the Government of the Republic of China, in accordance with the principles of international law and practice.

Article 3.

(1) His Majesty the King considers that the Final Protocol concluded at Peking on September 7th, 1901, between the Chinese Government and other Governments, including His Majesty's Government in the United Kingdom, should be terminated, and agrees that the rights accorded to His Majesty's Government in the United Kingdom under that Protocol and under the agreements supplementary thereto shall cease.

(2) His Majesty's Government in the United Kingdom will co-operate with the Government of the Republic of China for the reaching of any necessary agreements with the other Governments concerned for the transfer to the Government of the Republic of China of the administration and control of the diplomatic quarter at Peiping, including the official assets and the official obligations of the diplomatic quarter, it being mutually understood that the Government of the Republic of China, in taking over administration and control of the diplomatic quarter, will make provision for the assumption and discharge of the official obligations and liabilities of the diplomatic quarter and for the recognition and protection of all legitimate rights therein.

(3) The Government of the Republic of China shall accord to His Majesty's Government in the United Kingdom a continued right to use for official purposes the land which has been allocated to His Majesty's Government in the United Kingdom in the diplomatic quarter in Peiping, on parts of which are located buildings belonging to His Majesty's Government in the United Kingdom.

Article 4.

(1) His Majesty the King considers that the International Settlements at Shanghai and Amoy should revert to the administration and control of the Government of the Republic of China and agrees that the rights accorded to His Majesty in relation to those Settlements shall cease.

(2) His Majesty's Government in the United Kingdom will co-operate with the Government of the Republic of China for the reaching of any necessary agreements with the other Governments concerned for the transfer to the Government of the Republic of China of the administration and control of the International Settlements at Shanghai and Amoy, including the official assets and the official obligations of those Settlements, it being mutually understood that the

Government of the Republic of China, in taking over administration and control of those Settlements, will make provision for the assumption and discharge of the official obligations and liabilities of those Settlements and for the recognition and protection of all legitimate rights therein.

(3) His Majesty the King agrees that the British Concession (including the whole British municipal area) at Tientsin and the British Concession at Canton shall revert to the administration and control of the Government of the Republic of China and that the rights accorded to His Majesty in relation to those Concessions shall cease.

(4) The administration and control of the British Concession (including the whole British municipal area) at Tientsin and the British Concession at Canton, including their official assets and official obligations shall be transferred to the Government of the Republic of China, it being mutually understood that the Government of the Republic of China in taking over administration and control of those Concessions will make provision for the assumption and discharge of the official obligations and liabilities of those Concessions and for the recognition and protection of all legitimate rights therein.

Article 5.

(1) In order to obviate any questions as to existing rights in respect of or as to existing titles to real property in the territory of the Republic of China possessed by nationals and companies of His Majesty the King, or by His Majesty's Government in the United Kingdom, and in particular questions which might arise from the abrogation of the provisions of treaties and agreements provided for in Article 2 of the present Treaty, the High Contracting Parties agree that such existing rights or titles shall be indefeasible and shall not be questioned upon any ground except upon proof, established through due process of law, of fraud or of fraudulent or dishonest practices in the acquisition of such rights or titles, it being understood that no right or title shall be rendered invalid by virtue of any subsequent change in the original procedure through which it was acquired. It is also agreed that the exercise of these rights or titles shall be subject to the laws and regulations of the Republic of China concerning taxation, national defence and the right of eminent domain; and that no such rights or titles may be alienated to the government or nationals (including companies) of any third country without the express consent of the Government of the Republic of China.

(2) The High Contracting Parties also agree that if it should be the desire of the Government of the Republic of China to replace by new deeds of ownership existing leases in perpetuity or other documentary evidence relating to real property held by nationals or companies of His Majesty the King or by His Majesty's Government in the United Kingdom, the replacement shall be made by the Chinese authorities without charges of any sort and the new deeds of ownership shall fully protect the holders of such leases or other documentary evidence, and their legal heirs and assigns without diminution of their prior rights and interests, including the right of alienation.

(3) The High Contracting Parties agree further that nationals or companies of His Majesty the King or His Majesty's Government in the United Kingdom shall not be required or asked by the Chinese authorities to make any payments of fees in connection with land transfers for or with relation to any period prior to the effective date of this Treaty.

Article 6.

His Majesty the King having long accorded rights to nationals of the Republic of China within each of the territories of His Majesty to travel, reside and carry on commerce throughout the whole extent of that territory, the Government of the Republic of China agrees to accord similar rights to nationals of His Majesty within the territory of the Republic of China. Each High Contracting Party will endeavour to accord in his territories to nationals and companies of the other High Contracting Party in regard to all legal proceedings and in matters relating to the administration of justice and the levying of taxes and requirements in connexion therewith treatment not less favourable than that accorded to his own nationals and companies.

Article 7.

The consular officers of one High Contracting Party, duly provided with exequaturs, shall be permitted to reside in such ports, places and cities of the territories of the other High Contracting Party as may be agreed upon. The consular officers of one High Contracting Party shall have the right within their districts in the territories of the other High Contracting Party to interview, communicate with and to advise the nationals and companies of the former High Contracting Party, and the nationals and companies of one High Contracting Party within the territories of the other High Contracting Party shall have the right at all times to communicate with the consular officers of the former High Contracting Party. The consular officers of one High Contracting Party in the territories of the other shall be informed immediately by the appropriate local authorities when any of their nationals are arrested or detained in their consular districts by the local authorities. They shall have the right to visit within the limits of their districts any of their nationals who are under arrest or awaiting trial in prison. Communications from the nationals of one High Contracting Party in prison in the territories of the other High Contracting Party addressed to the consular officers of the former High Contracting Party will be forwarded to the appropriate consular officers by the local authorities. Consular officers of one High Contracting Party shall be accorded in the territories of the other High Contracting Party the rights, privileges and immunities enjoyed by consular officers under modern international usage.

Article 8.

(1) The High Contracting Parties will enter into negotiations for the conclusion of a comprehensive modern treaty or treaties of friendship, commerce, navigation and consular rights upon the request of either of them or in any case within six months after the cessation of the hostilities in the war against the common enemies in which they are both now engaged. The treaty or

treaties to be thus negotiated will be based upon the principles of international law and practice as reflected in modern international procedure and in the modern treaties which each of the High Contracting Parties have respectively concluded with other Powers in recent years.

(2) Pending the conclusion of the comprehensive treaty or treaties referred to in the preceding paragraph, if any questions affecting the rights in the territory of the Republic of China of the nationals or companies of His Majesty the King, or of His Majesty's Government in the United Kingdom or of the Government of India, should arise in future and if these questions are not covered by the present Treaty and the Exchange of Notes or by the provisions of existing treaties, conventions and agreements between the High Contracting Parties which are not abrogated by or inconsistent with the present Treaty and Exchange of Notes, such questions shall be discussed by representatives of the High Contracting Parties and shall be decided in accordance with the generally accepted principles of international law and with modern international practice.

Article 9.

The present Treaty shall be ratified and the instruments of ratification shall be exchanged at Chungking as soon as possible. The Treaty shall come into force on the day of the exchange of ratifications.

In witness whereof the above mentioned Plenipotentiaries have signed the present Treaty and affixed thereto their seals.

Done at Chungking this Eleventh day of January, 1943, corresponding to the Eleventh day of the First month of the 32nd year of the Republic of China in duplicate in English and Chinese, both texts being equally authentic.

(L. S.)

(L. S.)

(L. S.)

H. J. SEYMOUR.

H. E. RICHARDSON.

TSE VUNG SOONG.

EXCHANGE OF NOTES.

A.—Note from Dr. Tse Vung Soong, Chinese Minister for Foreign Affairs, to Sir Horace James Seymour.

Chungking, January 11th, 1943.

SIR,

During the negotiations for the treaty signed today between His Excellency the President of the National Government of the Republic of China and His Majesty the King of Great Britain, Ireland and the British Dominions beyond the Seas, Emperor of India, for the United Kingdom of Great Britain and Northern Ireland, and India, a number of questions have been discussed upon which agreement has been reached. The understandings reached with regard to these points are recorded in the annex to the present note, which annex shall be considered as an integral part of the Treaty signed today and shall be considered as effective upon the date of the entrance into force of that Treaty. I should be glad if Your Excellency would confirm these understandings on behalf of His Majesty's Government in the United Kingdom.

I avail myself of this opportunity to renew to Your Excellency the assurance of my highest consideration.

TSE VUNG SOONG.

H. E. Sir Horace James Seymour, K.C.M.G., C.V.O.,
His Majesty's Ambassador, CHUNGKING.

ANNEX.

1. With reference to Article 2 and Article 8 (2) of the Treaty, it is understood that:

(a) His Majesty the King relinquishes all existing Treaty rights relating to the system of Treaty Ports in China. His Excellency the President of the National Government of the Republic of China and His Majesty the King mutually agree that the merchant vessels of the one High Contracting Party shall be permitted freely to come to ports, places and waters in the territories of the other High Contracting Party which are or may be opened to overseas merchant shipping and that the treatment accorded to such vessels in such ports, places and waters shall be no less favourable than that accorded to national vessels and shall be as favourable as that accorded to vessels of any third country. The term "vessels" of a High Contracting Party means all vessels registered under the law of any of the territories of that High Contracting Party to which the Treaty signed this day applies.

(b) His Majesty the King relinquishes all existing rights relating to the special courts in the International Settlements at Shanghai and Amoy.

(c) His Majesty the King relinquishes all existing rights with regard to the employment of foreign pilots in the ports of the territories of the Republic of China.

(d) His Majesty the King relinquishes all existing Treaty rights relating to the entry of His naval vessels into the waters of the Republic of China; and the Government of the Republic of China and His Majesty's Government in the United Kingdom shall extend to each other in connexion with the visits of the warships of the one High Contracting Party to the ports of the other High Contracting Party mutual courtesy in accordance with ordinary international usage.

(e) His Majesty the King relinquishes any right to claim the appointment of a British subject as Inspector-General of the Chinese Customs.

(f) All the courts of His Majesty the King which have hitherto been sitting in the territories of the Republic of China having been closed down in accordance with Article 2 of the Treaty signed this day, the orders, decrees, judgments and other acts of any of His Majesty's courts in China shall be considered as *res judicata* and shall when necessary be enforced by the Chinese authorities; further, any cases pending before any of His Majesty's courts in China at the time of the coming into effect of the Treaty shall if the plaintiff or the petitioner so desires be

mitted to the appropriate courts of the Government of the Republic of China which shall proceed to dispose of them as expeditiously as possible and in so doing shall so far as practicable apply the law which the court of His Majesty would have applied.

(g) His Majesty the King relinquishes the special rights which his vessels have been accorded with regard to coasting trade and inland navigation in the waters of the Republic of China, and the Government of the Republic of China are prepared to take over any properties of His Majesty's nationals or companies which have been used for the purposes of these trades and which the owners may wish to dispose of and to pay adequate compensation therefor. The Government of the Republic of China relinquishes the special rights which have been accorded to Chinese vessels in respect of navigation on the river Irrawaddy under Article 12 of the Convention signed in London on March 1st, 1894. Should one High Contracting Party accord in any of his territories the right of coasting trade or inland navigation to the vessels of any third country, such rights would similarly be accorded to the vessels of the other High Contracting Party provided that the latter High Contracting Party permits the vessels of the former High Contracting Party to engage in the coasting trade or inland navigation of his territories.

Coasting trade and inland navigation are excepted from the requirement of national treatment and are to be regulated according to the laws of each High Contracting Party in relation thereto. It is agreed, however, that the vessels of either High Contracting Party shall enjoy within the territories of the other High Contracting Party with regard to coasting trade and inland navigation treatment as favourable as that accorded to the vessels of any third country subject to the abovementioned proviso.

2. With reference to the last sentence of Article 5 (1) of the Treaty, the Government of the Republic of China declare that the restrictions on the right of alienation of existing rights and titles to real property referred to in that Article will be applied by the Chinese authorities in an equitable manner and that if and when the Chinese Government decline to assent to a proposed transfer, the Chinese Government will, in a spirit of justice and with a view to precluding loss on the part of the nationals or companies of His Majesty the King whose interests are affected, undertake, if so requested by the national or company of His Majesty to whom permission to alienate has been refused, to take over the rights and titles in question and pay adequate compensation therefor.

3. It is understood that the abolition of the system of the Treaty Ports will not affect existing property rights and that the nationals of each High Contracting Party will enjoy the right to acquire and hold real property throughout the territories of the other High Contracting Party in accordance with the conditions and requirements prescribed in the laws and regulations of that High Contracting Party.

4. It is further agreed that questions which may affect the sovereignty of the Republic of China and which are not covered by the present Treaty or by the preceding provisions of the present Note shall be discussed by the Representatives of the Government of the Republic of China and His Majesty's Government in the United Kingdom and decided in accordance with the generally accepted principles of international law and modern international practice.

B.—Note from Sir Horace James Seymour, to Dr. Tse Vung Soong, Chinese Minister for Foreign Affairs.

Chungking, January 11th, 1943.

SIR,

I have the honour to acknowledge receipt of Your Excellency's Note of today's date reading as follows:—

"During the negotiations for the Treaty signed today between His Excellency the President of the National Government of the Republic of China and His Majesty the King of Great Britain, Ireland and the British Dominions beyond the Seas, Emperor of India, for the United Kingdom of Great Britain and Northern Ireland and India, a number of questions have been discussed upon which agreement has been reached. The understandings reached with regard to these points are recorded in the annex to the present Note, which annex shall be considered as an integral part of the Treaty signed today and shall be considered as effective upon the date of the entrance into force of that Treaty. I should be glad if Your Excellency would confirm these understandings on behalf of His Majesty's Government in the United Kingdom."

I have the honour on behalf of His Majesty's Government in the United Kingdom to confirm the understandings reached between us as recorded in the annex to Your Excellency's Note, which annex shall be considered as an integral part of the Treaty signed today and shall be considered as effective upon the date of the entrance into force of that Treaty.

I avail myself of this opportunity to renew to Your Excellency the assurance of my highest consideration.

H. J. SEYMOUR.

His Excellency Dr. Tse Vung Soong,
Minister for Foreign Affairs of the
Republic of China, Chungking.

C.—Note from Dr. Tse Vung Soong, Chinese Minister for Foreign Affairs, to Mr. Hugh Edward Richardson.

Chungking, January 11th, 1943.

SIR,

During the negotiations for the Treaty signed today between His Excellency the President of the National Government of the Republic of China and His Majesty the King of Great Britain, Ireland and the British Dominions beyond the Seas, Emperor of India, for the United Kingdom of Great Britain and Northern Ireland and India, a number of questions have been discussed

upon which agreement has been reached. The understandings reached with regard to those points are recorded in the annex to the present Note, which annex shall be considered as an integral part of the Treaty signed today and shall be considered as effective upon the date of the entrance into force of that Treaty. I should be glad if you would confirm these understandings on behalf of the Government of India.

I avail myself of this opportunity to offer to you the assurance of my high consideration.

TSE VUNG SOONG.

Hugh Edward Richardson, Esq.,
Indian Agency General, Chungking.

ANNEX.

1. With reference to Article 2 and Article 8 (2) of the Treaty, it is understood that :

(a) His Majesty the King Emperor relinquishes all existing treaty rights relating to the system of Treaty Ports in China. His Excellency the President of the National Government of the Republic of China and His Majesty the King Emperor mutually agree that the merchant vessels of the one High Contracting Party shall be permitted freely to come to ports, places and waters in the territories of the other High Contracting Party which are or may be opened to overseas merchant shipping and that the treatment accorded to such vessels in such ports, places and waters shall be no less favourable than that accorded to national vessels and shall be as favourable as that accorded to vessels of any third country. The term "vessels" of a High Contracting Party means all vessels registered under the law of any of the territories of that High Contracting Party to which the Treaty signed this day applies.

(b) His Majesty the King Emperor relinquishes all existing treaty rights relating to the special courts in the International Settlements at Shanghai and Amoy.

(c) His Majesty the King Emperor relinquishes all existing rights with regard to the employment of foreign pilots in the ports of the territories of the Republic of China.

(d) His Majesty the King Emperor relinquishes all existing treaty rights relating to the entry of His naval vessels into the waters of the Republic of China : and the Government of the Republic of China and the Government of India shall extend to each other in connexion with the visits of the warships of the one High Contracting Party to the ports of the other High Contracting Party mutual courtesy in accordance with ordinary international usage.

(e) His Majesty the King Emperor relinquishes any right to claim the appointment of a British subject as Inspector-General of the Chinese Customs.

(f) All the courts of His Majesty the King Emperor which have hitherto been sitting in the territories of the Republic of China having been closed down in accordance with article 2 of the Treaty signed this day, the orders, decrees, judgments and other acts of any of His Majesty's courts in China shall be considered as *res judicata* and shall when necessary be enforced by the Chinese authorities ; further, any cases pending before any of His Majesty's courts in China at the time of the coming into effect of the Treaty shall if the plaintiff or the petitioner so desires be remitted to the appropriate courts of the Government of the Republic of China which shall proceed to dispose of them as expeditiously as possible and in so doing shall so far as practicable apply the law which the court of His Majesty would have applied.

(g) His Majesty the King Emperor relinquishes the special rights which His vessels have been accorded with regard to coasting trade and inland navigation in the waters of the Republic of China, and the Government of the Republic of China are prepared to take over any properties of His Majesty's nationals or companies which have been used for the purposes of these trades and which the owners may wish to dispose of and to pay adequate compensation therefor. The Government of the Republic of China relinquish the special rights which have been accorded to Chinese vessels in respect of navigation on the river Irrawaddy under Article 12 of the Convention signed in London on March 1st, 1894. Should one High Contracting Party accord in any of his territories the right of coasting trade or inland navigation to the vessels of any third country such rights would similarly be accorded to the vessels of the other High Contracting Party provided that the latter High Contracting Party permits the vessels of the former High Contracting Party to engage in the coasting trade or inland navigation of his territories. Coasting trade and land navigation are excepted from the requirement of national treatment and are to be regulated according to the laws of each High Contracting Party in relation thereto. It is agreed, however, that the vessels of either High Contracting Party shall enjoy within the territories of the other High Contracting Party with regard to coasting trade and inland navigation treatment as favourable as that accorded to the vessels of any third country subject to the abovementioned proviso.

2. With reference to the last sentence of Article 5 (1) of the Treaty, the Government of the Republic of China declare that the restriction on the right of alienation of existing rights and titles to real property referred to in that Article will be applied by the Chinese authorities in an equitable manner and that, if and when the Chinese Government decline to assent to a proposed transfer, the Chinese Government will, in a spirit of justice and with a view of precluding loss on the part of the nationals or companies of His Majesty the King Emperor whose interests are affected, undertake, if so requested by the national or company of His Majesty to whom permission to alienate has been refused, to take over the rights and titles in question and pay adequate compensation therefor.

3. It is understood that the abolition of the system of the Treaty Ports will not affect existing property rights and that the nationals of each High Contracting Party will enjoy the right to acquire and hold real property throughout the territories of the other High Contracting Party in accordance with the conditions and requirements prescribed in the laws and regulations of that High Contracting Party.

4. It is further agreed that questions which may affect the sovereignty of the Republic of China and which are not covered by the present Treaty or by the preceding provision of the

present Note shall be discussed by the Representatives of the Government of the Republic of China and the Government of India and decided in accordance with the generally accepted principles of international law and modern international practice.

D.—Note from Mr. Hugh Edward Richardson, to Dr. Tse Vung Soong, Chinese Minister for Foreign Affairs.

Chungking, January 11th, 1943.

SIR,

I have the honour to acknowledge receipt of Your Excellency's Note of today's date reading as follows :—

" During the negotiations for the Treaty signed today between His Excellency the President of the National Government of the Republic of China and His Majesty the King of Great Britain, Ireland and the British Dominions beyond the Seas, Emperor of India, for the United Kingdom of Great Britain and Northern Ireland and India, a number of questions have been discussed upon which agreement has been reached. The understandings reached with regard to these points are recorded in the annex to the present Note, which annex shall be considered as an integral part of the Treaty signed today and shall be considered as effective upon the date of the entrance into force of that Treaty. I should be glad if you would confirm these understandings on behalf of the Government of India."

I have the honour on behalf of the Government of India to confirm the understandings reached between us as recorded in the annex to Your Excellency's Note, which annex shall be considered as an integral part of the Treaty signed today and shall be considered as effective upon the date of the entrance into force of that Treaty.

I avail myself of this opportunity to offer to Your Excellency the assurance of my highest consideration.

H. E. RICHARDSON.

His Excellency Dr. Tse Vung Soong,
Minister for Foreign Affairs of the
Republic of China, Chungking.

AGREED MINUTE.

With reference to paragraph 1 (a) of the Annex to the Note from the Chinese Minister for Foreign Affairs to His Majesty's Ambassador in connection with the Treaty signed today, it is understood that both High Contracting Parties reserve the right to close any port to all overseas merchant shipping for reasons of national security.

With reference to paragraph 1 (g) of the Annex to the Note from the Chinese Minister for Foreign Affairs to His Majesty's Ambassador in connexion with the Treaty signed today, His Majesty's Ambassador informed the Chinese Government that trade between India on the one hand and Burma or Ceylon on the other has always been regarded as coasting trade.

H. J. SEYMOUR.

TSE VUNG SOONG.

CHUNGKING ;
January 11th 1943.

I hereby certify this to be a true copy of the original.

Sd. BARKELEY GAGE,
First Secretary.

BRITISH EMBASSY,
CHUNGKING ;
January 13th, 1943.

Seal of
British Embassy,
Chungking.

The Government of the United Kingdom of Great Britain and Northern Ireland, the Government of India and the Government of the Kingdom of the Netherlands :

Considering that the Agreement to regulate the production and export of rubber, signed in London on the 7th May, 1934, and subsequently amended and expanded, will terminate on the 31st December, 1943, and that it is desirable to provide for a temporary continuation of this agreement, while negotiations for the conclusion of a new agreement for consultation and information as regards rubber and rubber substitutes can be completed :

Have accordingly agreed as follows :—

Article 1.

The Agreement to regulate the production and export of rubber, signed in London on the 7th May, 1934, and subsequently amended and expanded, shall remain in force for a further period of four calendar months from the 31st December, 1943.

Article 2.

No contribution to the expenses of the International Rubber Regulation Committee shall be payable in respect of the period the 1st January, 1944, to the 30th April 1944.

Article 3.

The present agreement shall come into force from today's date.

In witness whereof the undersigned plenipotentiaries, being authorised to this effect by their respective Governments, have signed the present agreement and have affixed thereto their seals.

Done in London this 22nd day of December, 1943, in English, in a single copy which shall remain deposited in the archives of the Government of the United Kingdom and of which certified

copies shall be communicated by the Government of the United Kingdom to each of the other contracting Governments.

For the Government of the United Kingdom of Great Britain and Northern Ireland :
(L. S.) ANTHONY EDEN.

For the Government of India :
(L. S.) S. E. RENGANADHAN.

For the Government of the Kingdom of the Netherlands :
(L. S.) E. MICHIELS v. VERDUYNEN.

STANDING COMMITTEE FOR ROADS, 1944-45.

THE HONOURABLE SIR MAHOMED USMAN (Leader of the House): Sir, I beg to move :—

“That this Council do proceed to elect, in such manner as the Honourable the President may direct, three members to serve on the Standing Committee for Roads which will be constituted to advise the Governor General in Council in the administration of the Central Road Fund during the financial year 1944-45.”

The Motion was adopted.

STANDING COMMITTEE FOR THE DEPARTMENT OF POSTS AND AIR.

THE HONOURABLE SIR MAHOMED USMAN: Sir, I beg to move :—

“That this Council do proceed to elect, in such manner as the Honourable the President may direct, two non-official members to serve on a Standing Committee to advise on subjects other than ‘Roads’, dealt with in the Department of Posts and Air, during the year 1944-45.”

The Motion was adopted.

THE HONOURABLE THE PRESIDENT: With reference to the Motions which have just been adopted by the Council, I have to announce that nominations to the Committees will be received by the Secretary up to 11 A.M. on Tuesday, the 7th March, 1944, and the date of election, if necessary, will be announced later.

STANDING COMMITTEE ON PILGRIMAGE TO THE HEJAZ.

THE HONOURABLE THE PRESIDENT: With reference to the announcement made by me on the 23rd February, 1944, I have to announce that the following Honourable Members have been nominated for election to the Standing Committee on Pilgrimage to the Hejaz :—

1. The Honourable Mr. Abdool Razak Hajee Abdool Suttar.
2. The Honourable Khan Bahadur Ali Buksh Mohamed Husain.

There are two candidates for two seats and I declare them duly elected.

STANDING COMMITTEE ON EMIGRATION.

THE HONOURABLE THE PRESIDENT: With reference to the announcement made by me on the 23rd February, 1944, I have to announce that the following Honourable Members have been nominated for election to the Standing Committee on Emigration :—

1. The Honourable Pandit Hirday Nath Kunzru.
2. The Honourable Mr. P. N. Sapru.
3. The Honourable Sir David Devadoss.
4. The Honourable Sayed Mohamed Padshah Sahib Bahadur.

There are four candidates for four seats and I declare them duly elected.

STANDING COMMITTEE FOR THE DEPARTMENT OF INFORMATION AND BROADCASTING.

THE HONOURABLE THE PRESIDENT: With reference to the announcement made by me on the 24th February, 1944, regarding nominations for election to the Standing Committee to advise on subjects in the Department of Information and Broadcasting, I have to inform the House that the Honourable Sir Ramunni Menon has since withdrawn his candidature. As there now remain the following two candidates for two seats, I declare them duly elected :—

1. The Honourable Mr. Hossain Imam.
2. The Honourable Rai Bahadur Sri Narain Mahtha.

COAL MINES SAFETY (STOWING) AMENDMENT BILL.

THE HONOURABLE MR. H. C. PRIOR (Labour Secretary) : Sir, I move :—
“That the Bill further to amend the Coal Mines Safety (Stowing) Act, 1939, as passed by the Legislative Assembly, be taken into consideration.”

Sir, the reason for our bringing forward this Bill is fully explained in the Statement of Objects and Reasons and I think there is very little for me to add. We have found that it is necessary, in the interests of safety in coal mines and for the protection of property to introduce this small amendment in the Coal Mines Safety (Stowing) Act.

Sir, I move.

The Motion was adopted.

Clauses 2, 3 and 4 were added to the Bill.

Clause 1 was added to the Bill.

The Title and Preamble were added to the Bill.

THE HONOURABLE MR. H. C. PRIOR : Sir, I move :—

“That the Bill, as passed by the Legislative Assembly, be passed.”

The Motion was adopted.

INDIAN COMPANIES (AMENDMENT) BILL.

THE HONOURABLE MR. N. R. PILLAI (Commerce Secretary) : Sir, I beg to move :—

“That the Bill further to amend the Indian Companies Act, 1913, as passed by the Legislative Assembly, be taken into consideration.”

During the past few years, Sir, there has been considerable, even feverish, activity in establishing banking firms in this country, no fewer than 38 banks having been established between November, 1939 and November, 1942. An analysis undertaken by the Reserve Bank of India of the share structure, managerial arrangements and the working methods of these companies has revealed certain undesirable features the nature of which is described in the Statement of Objects and Reasons. Banking institutions constitute the life-blood of the economic system of a country, and an essential pre-requisite to the economic progress of India is an improvement in the banking system of this country. Unfortunately, it is not practicable in present conditions to bring forward comprehensive banking legislation of the type which Government have in mind. But that does not mean that time should be lost in taking steps to eliminate the undesirable trends which have characterised recent banking developments in this country. This Bill seeks to achieve that object. I need only add that the commercial community has been fully consulted, and opinion is unanimous that the Reserve Bank's proposals should be brought into effect immediately.

THE HONOURABLE MR. G. S. MOTILAL (Bombay : Non-Muhammadan) : Sir, I rise to give my support to this amending Bill. This amending Bill proposes to add two new sections to the Indian Companies Act, 1913. One a new section 277HH is to be added after section 277H. When section 277H was enacted, the intention of the Government and of the Legislature was that no Company shall employ a managing agent. It was assumed—that was the implication in the mind of the Government and of the Legislature—that a managing agent is one who receives remuneration by way of a share in the profits or by way of commission. But these words did not appear in the section. It simply said : “No banking company shall after the expiry of two years from the commencement of the Indian Companies (Amendment) Act, 1936, employ or be managed by a managing agent. It stopped there, and did not say that it shall not pay remuneration to a managing agent by way of commission or by way of a share in the profits. These words are now proposed to be added by the new section. In the section which is already there in the Act, there is an exception provided to it. The exception is that a banking company can act as a managing agent. It is proposed to retain this section 277H and the retention of this section makes these two sections appear somewhat inconsistent. I had a talk with the Commerce Secretary and he will probably throw some light why this section is being retained. I suppose it is being retained because the new section does not come into force immediately, but will come into force after two years. The new section 277HH provides that no person shall be appointed

a managing agent whose remuneration shall be paid by way of a share in the profit of the company or by way of commission. It further provides that if any person is engaged to manage the business of a banking company, that person might be called a manager or agent or by whatever other name, such person shall not be employed for more than a term of five years at any time, the idea being that at any one time he may be employed only for five years. Without this new section a manager could be employed and in this way the object of section 277H could be defeated by a banking company employing a manager for a term of seven years, eight years or even 20 years or any number of years. Hereafter with this new section in the Act a banking company shall not be allowed to engage a person for more than five years. At the expiry of the term of five years a person can be engaged and a contract of service entered into employing him for only a further term of five years. This is a salutary provision.

THE HONOURABLE THE PRESIDENT : It can be renewed.

THE HONOURABLE MR. G. S. MOTILAL : At the end of five years it can be renewed, if the same person is to be engaged at the end of five years, then again at the end of another five years and so on. But there can be no contract hereafter, with the new section being in the Act for employing a person for ten or even for six years.

THE HONOURABLE THE PRESIDENT : It is a wholesome rule, because if a man has not done well he can be removed.

THE HONOURABLE MR. G. S. MOTILAL : That is the view I take, Sir.

The Government are now proposing to add another section and that is section 277I. As the Honourable the Commerce Secretary has said, recently there have been one or two instances in which certain individuals have made an attempt to so manipulate the rules of a banking company that by investing only a small portion and holding only a small share out of the total capital of the company they retain control of that concern in their hands and this is done by the method of floating three types of shares, one type of share is of a larger capital, the second type is of a smaller capital and the third type is of still much smaller capital and the shareholder of each kind of share is given one vote equally. The man who wants to control the concern keeps the shares of the third type for which he has to invest a small capital for keeping in his hand a large number of shares, and thus he enables himself to control the banking concern. The new section makes provisions debarring any person from using these methods. I therefore give it my wholehearted support.

THE HONOURABLE MR. N. R. PILLAI : Sir, the only point in the Honourable Mr. Motilal's speech which calls for an answer is the point concerning the retention of section 277H, and to that point the Honourable Member has furnished an answer himself. The position, Sir, is that the new section 277HH does not come into force until after the expiry of two years from the commencement of this Act, and during that interval it is necessary to retain the present section 277H. But it is Government's intention after that period to repeal that section.

THE HONOURABLE THE PRESIDENT : Motion moved :—

“That the Bill further to amend the Indian Companies Act, 1913, as passed by the Legislative Assembly, be taken into consideration.”

Question put and Motion adopted.

Clause 2 was added to the Bill.

Clauses 3 and 4 were added to the Bill.

Clause 1 was added to the Bill.

The Title and Preamble were added to the Bill.

THE HONOURABLE MR. N. R. PILLAI : Sir, I move :

“That the Bill, as passed by the Legislative Assembly, be passed.”

The Motion was adopted.

INDIAN AIRCRAFT (AMENDMENT) BILL.

THE HONOURABLE SIR MAHOMED USMAN (Posts and Air Member) : Sir, I move :—

“That the Bill further to amend the Indian Aircraft Act, 1934, as passed by the Legislative Assembly, be taken into consideration.”

This is a very simple Bill and the reasons why it is being introduced will be found in the Statement of Objects and Reasons. The Indian Aircraft Act, 1934, contains

[Sir Mahomed Usman.]

no specific provision for the development of air transport and as there will be a great development in air transport after the war it is essential that it should be on a rational and economic basis. It is therefore proposed to establish an Air Transport Licensing Board and to prohibit the operation of transport services without a licence.

When this Bill was first introduced in the Assembly there were only the first two sections. The third section was added as a result of an amendment there. Recently Sir, when the Excise Act with a similar provision was before this House Mr. Hossain Imam expressed his appreciation and I am sure he will do so now. On account of this provision the rules made will be placed before the Legislative Chambers. It is a very simple Bill and I request the House to pass it.

Sir, I move.

THE HONOURABLE MR. V. V. KALIKAR (Central Provinces : General): Sir, I give my support to the Bill. But I want to make certain inquiries from the Government and therefore I propose to take part in the debate on this Bill. To me it appears a post-war reconstruction measure and if that is correct, then I should know from my Honourable friend the Leader of the House what will be the policy of the Government in running these air services in India in future, whether the Government propose to run their own services, whether the Government would allow private organisations and private companies to run their services or whether they will give a monopoly to a particular company to run these services. So far as I am concerned, I would like to have it a concern run by the Government. If the concern is run by the Government, at least the Central Legislature will have an opportunity of bringing pressure on the Government if the service is not run efficiently.

THE HONOURABLE THE PRESIDENT: Why do you want to take away private enterprise?

THE HONOURABLE MR. V. V. KALIKAR: Sir, I am coming to that. Railways were started as a private enterprise in the past, but after some time the railways were acquired by the Government and we have some voice in the management of the railways, though we know that they do not carry out our wishes as we have seen in the present session of the Assembly. Still we can raise some voice of protest against maladministration and therefore I say that the State should run the air services.

Then, Sir, another question that crops up before me is this. What will be the attitude of the Government about the manufacture of aircraft in India? So far as the manufacture of aircraft in India is concerned I would leave it to private organisations. We know, Sir, that the Government of India did not encourage the manufacture of locomotives in India and therefore India was put to the greatest inconvenience during this war. I think from this very moment if Government are really serious to start and to encourage air service in India after the war they should take measures to establish factories and encourage private organisations to manufacture aircraft in India.

The third point, that has suggested to me after reading this Bill is about the training of pilots. After the outbreak of war, the Civil Flying Clubs were taken over by Government. Naturally, Sir, if you start aircraft service you will require pilots and for that purpose training schools ought to be established and Indian air-men should be trained for that service. India cannot afford to import people from outside to run their air service.

THE HONOURABLE THE PRESIDENT: Are they not being trained now in India?

THE HONOURABLE MR. V. V. KALIKAR: Sir, there are very few people trained and they are absorbed in the Indian Air Force. Therefore, Sir, I submit that the Government should make an attempt to start training schools for these pilots, so that the air services in India should be manned by Indians and by efficient Indians.

So far as the construction of the Board is concerned, Sir, I have nothing to say against it except that the Board should be an independent and expert Board. It should not be controlled in any way by the Government to such an extent that the Board should issue licences to anybody who is within the limelight of the Government.

Sir, the next thing that I would like to know from the Government is whether the Government is going to take part in that Conference or Committee, whatever it

may be called, which Lord Beaverbrook envisaged in October last : whether India will be represented on that Committee or not.

These are the points that I want to know from the Government and I hope my Honourable friend the Leader of the House will give replies to them.

*THE HONOURABLE MR. HOSSAIN IMAM (Bihar and Orissa : Muhammadan) : Mr. President, I am very grateful to the Honourable the Leader of the House for having accepted the slight but very important amendment which has been made in the Bill.

THE HONOURABLE THE PRESIDENT : I do not properly follow you.

THE HONOURABLE MR. HOSSAIN IMAM : This was an amendment to the original Bill as it was introduced and is embodied in clause 3. This was moved by a member of the Assembly and accepted by Government.

Sir, the Honourable Mr. Kalikar has mentioned why we feel that the transport of the future will be diverted more and more to the air from the railways and as we incur losses in one it is only right and proper that we should recoup them from the future modes of transport. The future of air transport, Sir, is very great. Not only will it be confined to passenger traffic but the giant planes that are being made in America to carry cargoes will seriously compete with the railways, at least in their coaching traffic like parcels and other things, highly paid stuff, although the railways will have to carry on coal and grain as they are doing now.

We wish, Sir, to request the Government to keep a vigilant eye on the international services which may pass through India. It is all very well to say that India will have the reciprocal right of establishing its own service in other countries but we have to examine the feasibility of it as well. A theoretical truth need not be a literal truth. We had some sad experience, Sir, of giving income-tax rebate to His Majesty's Government where we had to give rebates of enormous amounts and we received practically nothing back from His Majesty's Government. Similarly, if we have this concession of international traffic there is no doubt that theoretically we will have also that advantage but we will not be able to translate it into action because we cannot have any transport services in other parts of the country.

THE HONOURABLE THE PRESIDENT : I do not see how your analogy arises.

THE HONOURABLE MR. HOSSAIN IMAM : Our experience of the past is very sad and having been forewarned we want to be forearmed. Therefore, I wish to ask—

THE HONOURABLE SIR MAHOMED USMAN : May I know what the Honourable Member wants ? He has been speaking for the last five minutes but I have not been able to know exactly what he wants ?

THE HONOURABLE MR. HOSSAIN IMAM : I would say, Sir, that in the rule-making power the internal services should be reserved for either Government or private companies. The foreign companies should not be allowed to carry passengers or goods from one station of India to another station without certain restrictions. Indeed, I would ask for rights either in employment or in technical training, etc. Some sort of regulations must be made in order to qualify a person to carry internal passengers. Of course, you cannot impose any restriction on a passenger going from Calcutta to London but we can restrict a passenger going, say, from Calcutta to Bombay. For these reasons, I want that there should be some restrictions.

Secondly, Sir, I would specially draw the attention of the Leader of the House to the fact that in the Department of Civil Aviation my community has received very scant justice.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : Nation !

THE HONOURABLE MR. HOSSAIN IMAM : My nation, Sir. I am grateful to Pandit Kunzru for having corrected me.

I hope, Sir, that he will keep a vigilant eye on this Department and see that we get our share. I want no preference but I do desire that our share should not be taken away by others.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU (United Provinces Northern : Non-Muhammadan) : Mr. President, the Bill before us, though unobjectionable in principle, raises questions of considerable importance. In view of the

* Not corrected by the Honourable Member.

[Pandit Hirday Nath Kunzru.]

anxiety which was prevalent in the country with regard to the lines on which civil aviation might be developed in future in this country, I put certain questions in August last in order to ascertain what policy would find favour with the Government of India. There are three questions that arise in this connection. The first question is that India should secure her proper share in the international air services. This implies that two considerations should be borne in mind: one is that India should have the same right to start an international air service as other countries would have; and the second is that if India allows certain facilities to foreign companies in respect of flying over India, she should be given reciprocal concessions in other countries. The second question that arises in this connection is that internal aviation, that is, the conveyance of passengers and goods from one place in India to another place in India, should be a matter which should be in the hands of Indian companies only. International companies may be allowed to operate their services across India, but they should not be allowed to carry traffic from one place in the country to another place which also is situated in the country. The third is that the development of air services as far as possible should be carried out through an Indian agency. I am glad to say that Government gave satisfactory answers on all these points. They stated that their policy was to ensure that operators of Indian aircraft enjoyed equal terms with others in the operation of services outside India. They also made it clear that the right of India to obtain reciprocal concessions in other countries in return for any concessions that she may give had been recognised, and that traffic between two places in India would be carried by Indian companies only within the meaning of the Act of 1935. Sir, these assurances are satisfactory as far as they go. But I should like to have further information in this connection because it is important not merely that India should be able to operate on a footing of equality with other countries in the matter of starting and maintaining international air services but that her pilots and engineers should also be employed to a fair extent in companies that operate across India. Before the war when the Imperial Airways negotiated an agreement with the Government of India with regard to flights across the country, the Government of India secured the recognition of the right of Indians to be employed in responsible capacities in the concern that was floated to manage the flights across the country. I suggest, Sir, that the same principle should be followed in connection with the development of international air services across India.

Again, Sir, as my Honourable friend Mr. Kalikar pointed out, it is of the utmost importance not merely that we should secure the rights of Indians in respect of employment in the companies to which I have referred, but also that the Government of India themselves should provide adequate facilities for the training of pilots, engineers, skilled mechanics and the other technicians that would be needed for the development of civil aviation. Formerly there were a number of civil flying schools. Those schools have all been closed down and the training of pilots is now the sole concern of the Army. We were told that the pilots trained at the flying schools would not be able to satisfy the requirements of the military authorities. Again, because of the war the civil flying companies have been in a very difficult position. Some of these companies are still in existence: for instance, the Tata Airways and another company operating in Northern India. These companies, I understand are prepared to train pilots if Government call upon their services in this connection. I think, Sir, that steps should be taken immediately to establish civil flying schools and take the help which the Indian companies are patriotically prepared to give in order to provide a sufficient number of highly trained and skilled personnel by the time the war is over. If the Government take the matter in hand now, I think it will be two years before the training of pilots is over. The training of engineers will take a longer time than that of pilots. It is obvious, therefore, that we cannot wait to take the necessary steps in this connection till the war is over. We must take vigorous measures immediately in order that we may not be caught napping when other countries take steps to start international air services immediately after the war. This was a point, Sir, to which the Society of British Aircraft Constructors drew the attention of the British Government a few months ago. The Society laid stress on the training of the technical personnel because of its obvious importance. If it is necessary in England, where about 2 million men are engaged in the aircraft industry, that immediate steps should be taken to train pilots, engineer

etc., how much more necessary must it be in a backward country like India for the Government to take immediate and energetic measures to prevent India from being unable to compete with the international companies on a footing of equality? I think, Sir, that the matter is a very important one and that the Government cannot take it up too soon.

Another question Sir, to which I want to refer is that of the construction of aircraft. My Honourable friend Mr. Kalikar has referred to this also. It was suggested by him that the help of private companies might be taken for the construction of aircraft. Sir, before we can consider this question we must make up our minds with regard to the character of the agency that will control air transport in India in the future. Should it be a private agency or should it be an official agency? I am personally strongly of opinion that the transport services should, as far as possible, be controlled and also run by the Government of India. We have adopted this policy in the case of the railways. The help of private companies was required in the early days of railway construction because it was thought that if facilities were given for private enterprise, a large amount of British capital would be attracted to this country. I do not want to go into the history of that question. It is sufficient for the purpose of my argument to point out that whatever the view of the Government of India might have been in the Fifties and Sixties, it has now practically acquired all the railway companies in India or has taken over the management of its own railways. I do not see, Sir, why the same principle should not be observed in the case of air transport. The Government will have to provide the ground organisation, the meteorological information and the radio communications that would be required for the development of civil aviation. Why should they not then go a step further and be responsible themselves for the maintenance of air transport as they are responsible for the maintenance of the railways?

THE HONOURABLE THE PRESIDENT: Have you any reason to believe to the contrary?

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: I do not know. I want a declaration of the intentions of Government in this respect. I want to emphasise that in the opinion at least of a section of public opinion in the country, it is not merely highly desirable but necessary that the means of transport should not be in the hands of a private agency. To develop my argument further, what would be thought of the Government of India if while it provided the permanent track, it allowed private agencies to own and run railway companies? Some such policy did find favour with them in the past—

THE HONOURABLE THE PRESIDENT: Only small feeder lines; no big companies.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU: They did allow the B. & N. W. R. company to come into existence. It was an entirely private company. A section of the Rohilkund and Kumaon Railway was an entirely private concern. It cannot, therefore, I respectfully submit, be maintained that it was only in the case of feeder railway services that Government allowed private companies to operate. Sir, just as Government, who provided the railway track, now run the railways, similarly Government, who will provide all those facilities without which civil aviation cannot be developed, should also themselves be responsible for the maintenance and development of air transport in the country. In the second place, it is not necessary to attract capital from outside the country. If Government want to borrow for the development of air transport, I have no doubt that they will get all the money that they need in the country. They do not need the help of private enterprise either for securing the necessary money or for the operational and technical development of air transport. This being my view, Sir, it naturally colours my opinion with regard to the construction of aircraft. Let us by all means have competition, in so far as it is possible, in the construction of aircraft of good designs. Let us take the help of private companies in the construction of what is called prototype aircraft which can be used for experimental purposes. But, a large scale construction of aircraft should, I think, be undertaken by Government themselves just as they have undertaken the construction of railway wagons here. They should have started the manufacture of locomotives long ago, but they have been deplorably negligent of Indian interests in this matter. Let them not repeat this mistake in the case of aircraft.

[Pandit Hirday Nath Kunzru.]

Sir, these are the main points that I wish to urge in connection with the policy underlying the Bill before us. I know, Sir, that the rules, when they are ready, will be laid before both Houses of the Central Legislature before they are brought into operation. But no rules can make the position of the Government clear in the same manner as a declaration of their policy in express terms by those who are responsible for the Posts and Air Department. I trust, Sir, that my Honourable friend the Leader of the House will be able to make observations on the questions that I have raised which will be considered satisfactory by those who sit on this side of the House.

THE HONOURABLE SIR MAHOMED USMAN : Sir, I am very thankful to the Honourable Members for the constructive suggestions that they have made in the course of their speeches and I may say that there is not much difference, almost no difference, between my Honourable friends and myself. The very object of my coming before this House with this Bill shows our determination that we are not going to be caught napping.

As regards the various points expressed by the three Honourable Members who spoke on this, I should just like to give brief replies. The Honourable Mr. Kalikar and the Honourable Mr. Kunzru wanted that Government themselves should run these transport services and that Government should announce their policy whether they are going to do so, or whether they are going to hand them over to private companies or whether they are going to give monopoly to any particular company? With regard to these three points, Sir, I should like to say that Government have an open mind. We have referred the question to the Policy Reconstruction Committee and Government will make up their minds afterwards. I note that all the three Honourable Members who spoke were unanimous that the transport services should be under Government. The Honourable Mr. Hossain Imam said that he had no objection to private companies as well.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : If Government do not consult the Reconstruction Policy Committee with regard to the purchase of railways or the manufacture of locomotives, why should they consult them only with regard to the running of transport services? Why should that Committee hold up every desirable development in the country?

THE HONOURABLE SIR MAHOMED USMAN : That Committee is going to meet in about a month.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : Frankly speaking, we know nothing of this Committee.

THE HONOURABLE SIR MAHOMED USMAN : The Reconstruction Policy Committee consists of representatives of both Houses, experts and officials. Government would like to get the opinion of the Policy Committee before coming to a decision.

As regards the manufacture of aircraft in this Country Government will give the utmost encouragement to it if it is possible. When you are going to have great developments in air transport, I think it is but right that we should see to it that our pilots are properly trained. I shall bestow my best attention to this suggestion.

As regards the constitution of these Licensing Boards, it was suggested that it should be independent of Government and should consist of experts. I entirely agree.

Another point raised was that India should be represented at International Conferences. I may say that I am absolutely certain that India will be represented.

My Honourable friend Mr. Kunzru said that India should secure her proper share in the international services, that we should have reciprocal relationship with foreign countries that grant certain facilities to India, and that internal services should be in the hands of Indian companies. On these three points I have given my reply before in answers to questions and I am glad to note that the Honourable Mr. Kunzru is satisfied. I do not think there is any other point to which I should like to refer. I give this assurance to the House that the various views expressed by the Honourable Members will receive my very earnest attention.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : Do I understand that Government mean to re-establish Flying Schools very soon ?

THE HONOURABLE SIR MAHOMED USMAN : I have to investigate the matter. It may not be possible during the war.

THE HONOURABLE PANDIT HIRDAY NATH KUNZRU : I understand that the private companies that are still in existence are prepared to give all the assistance that they can for the training of pilots.

THE HONOURABLE SIR MAHOMED USMAN : I shall go into the question. That is all I can say at present.

THE HONOURABLE THE PRESIDENT : Motion moved :—

“ That the Bill further to amend the Indian Aircraft Act, 1934, as passed by the Legislative Assembly, be taken into consideration.”

Question put and Motion adopted.

Clause 2 was added to the Bill.

Clause 3 was added to the Bill.

Clause 1 was added to the Bill.

The Title and Preamble were added to the Bill.

THE HONOURABLE SIR MAHOMED USMAN : Sir, I move :—

“ That the Bill, as passed by the Legislative Assembly, be passed.”

The Motion was adopted.

TRANSFER OF PROPERTY (AMENDMENT) BILL.

THE HONOURABLE MR. SHAVAX A. LAL (Nominated Official) : Sir, I move :—

“ That the Bill further to amend the Transfer of Property Act, 1882, as passed by the Legislative Assembly, be taken into consideration.”

Sir, the Bill is designed to amend and clarify the law relating to the assignment of marine insurance policies. Its objects have been fully explained in the Statement of Objects and Reasons, to which I have nothing to add.

Sir, I move.

The Motion was adopted.

Clause 2 was added to the Bill.

Clauses 3 and 4 were added to the Bill.

Clause 1 was added to the Bill.

The Title and Preamble were added to the Bill.

THE HONOURABLE MR. SHAVAX A. LAL : Sir, I move :—

“ That the Bill, as passed by the Legislative Assembly, be passed.”

The Motion was adopted.

INSURANCE (AMENDMENT) BILL.

THE HONOURABLE MR. N. R. PILLAI (Commerce Secretary) : Sir, I move :—

“ That the Bill further to amend the Insurance Act, 1938, as passed by the Legislative Assembly, be taken into consideration.”

The scope and purpose of this Bill are fully stated in the Statement of Objects and Reasons, and I do not think that I should be justified in taking up the time of the House by entering into these matters in greater detail.

Sir, I move.

The Motion was adopted.

Clause 2 was added to the Bill.

Clauses 3 and 4 were added to the Bill.

Clause 1 was added to the Bill.

The Title and Preamble were added to the Bill.

THE HONOURABLE MR. N. R. PILLAI : Sir, I move :—

“ That the Bill as passed by the Legislative Assembly be passed.”

The Motion was adopted.

THE HONOURABLE THE PRESIDENT : The consideration of the Bill to amend the Cantonments Act is postponed.

The Council then adjourned till Half Past Five of the Clock.

The Council reassembled at Half Past Five of the Clock, the Honourable the President in the Chair.

PRESENTATION OF THE GENERAL BUDGET, 1944-45.

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 1943-44 and the corresponding estimates of revenue and expenditure for the year 1944-45.

2. A year ago when presenting the budget estimates for 1943-44 I made mention of the grave military anxieties through which the country had passed during the year which was then nearing its end, and of the striking improvement in the situation which had begun to manifest itself in its closing months. This year I have a parallel picture to draw in the economic sphere. In the military sense the year 1943 has been one of almost unbroken success since the dramatic turning of the tide towards the end of 1942. We have now reached the stage where hope of victory, which was all that even the most optimistic could indulge in for so many weary years, has given place to certainty of triumph of the United Nations over their enemies. But although a powerful and deadly foe continues to contain our eastern frontier, the gravest perils which have beset this land during the past 12 months have been economic. As I mentioned last year, continued and cumulative shortages were only to be expected and were clearly anticipated, but there was little evidence then of the severity of the economic storms which were so shortly to descend upon us. In the past year we have had to face, and I think we can without exaggeration say have surmounted, two major crises. The first was the speculative mania of last spring, induced by the feeling that the Government would be unable by appropriate counter measures to offset the effect of the great expenditure which had had to be incurred as a consequence of the serious war situation. The second was the food crisis, again induced by the fear that the situation created as the result of the cessation of food imports, a bad harvest in Bengal, hoarding by ryot and speculator, and increased consumption, would be beyond the power of Government to control.

3. To meet the dangers which threatened us resolute and sometimes drastic action had to be taken, and was taken, by the Government, both in the monetary sphere and in the realm of commodity control. These two methods of attack, *viz.*, control in the fiscal field and control in the commodity field, are complementary and equally necessary. Notwithstanding the difficulties inherent in the situation—the vastness of the country, the low standard of education, the division of administrative authority, lack of trained and experienced staff, the opposition of vested interests, the danger from public inertia and the hostility of ill-disposed elements—the broad result of the measures taken is an undoubted improvement in the economic situation, as is evidenced in the degree of price stability which has been maintained over the past 8 months or so. Still more encouraging is the marked improvement which has been brought about in public psychology. Greed and cupidity have been restrained and confidence largely restored. If this measure of success had not attended the Government's efforts, the present state of India would have been parlous indeed. Even so, we have a legacy of human suffering to remind us that, though the immediate threat may have receded, many of our problems are still with us and give cause for anxiety and constant vigilance. So long as the underlying conditions remain those created by the war, we cannot afford to relax. On the contrary, the Government will have to extend their controls and underpin the economic structure of the country in every way open to them. More important even than the raising of the resources required for the war is the conduct of an unrelenting war against the causes and consequences of monetary abundance in the conditions created by the war. But the successful establishment of the principle of drastic control, and still more the acceptance of that principle by the vast mass of the population, which characterise the financial year now drawing to its close, give good cause for confidence and hope for the future.

4. I will now pass under brief review the final results for the financial year 1942-43. As compared with the revised estimates, revenue showed a fall of

about Rs. 2 crores. There was a decrease under Customs revenue of Rs. 6 crores caused by a late decision to refund to the Defence Services the duty initially collected under the ordinary customs procedure on the petrol and aviation spirit required for the expansion of India's air and land forces, consequent upon the decision of His Majesty's Government to bear the entire cost of this spirit. Receipts on account of war risk insurance premia fell by Rs. 3 crores, but as this is a self-balancing item so far as the revenue account is concerned, there is a corresponding reduction in civil expenditure. Income-tax collections, on the other hand, improved to the extent of Rs. 8 crores. Defence expenditure exceeded the revised estimates by Rs. 25 crores, Rs. 8½ crores of which was due to increased recurring expenditure on the expanded air forces and the transfer to revenue of certain items of such expenditure which had provisionally been held under suspense, and the balance on account of a reduction in receipts from the sale of lend-lease stores and increased expenditure on vehicle construction. This excess was partly counter-balanced by a reduction of Rs. 9 crores in civil expenditure of which Rs. 3 crores represents a fall in the payment of premia receipts to the war risk insurance funds. On balance therefore, the revenue deficit, which in the revised estimates was expected to be Rs. 94.66 crores, proved in the final accounts for the year to be Rs. 112.17 crores.

5. Revenue in the current year is expected to reach Rs. 254.50 crores, an improvement of Rs. 35.50 crores over our budget anticipations. Customs revenue has been coming in very much as expected, apart from the refund to the Defence Services of the duty on imported petrol and aviation spirit to which I have already referred, and the year's net receipts under this head are now estimated at Rs. 25.94 crores as against the budget figure of Rs. 30 crores. Central Excises are likely to show an improvement of Rs. 63 lakhs over the budget estimate of Rs. 25.02 crores, a short-fall of Rs. 1½ crores under tobacco being more than counterbalanced by increased collections under motor spirit and matches. From Taxes on Income we anticipate a total revenue for the year of Rs. 138 crores, which is Rs. 36 crores in excess of the budget figure. Excess Profits Tax accounts for Rs. 22.25 crores of this increase, but this is not attributable to the provisional assessments made under the ordinance which was issued last year, since those collections are treated as deposits pending regular assessment. The main reason for the better results is the special drive for speeding up the work of assessment. On our calculations, the share of income-tax revenue which will be payable to the Provinces will, including Rs. 1.98 crores on account of last year's arrears, amount to no less than Rs. 19.50 crores or Rs. 7.40 crores in excess of the budget estimate. Under the head "Currency and Mint" we anticipate an improvement of Rs. 4.94 crores, the bulk of which is accounted for by the increase in the Government's share of the surplus profits of the Reserve Bank of India. The contributions to general revenues of Rs. 9.38 crores from the Posts and Telegraphs Department and Rs. 32.27 crores from the Railways are in excess of the budget estimates by Rs. 1.02 crores and Rs. 5.17 crores, respectively.

6. I turn now to the revised estimates of expenditure for the current year 1943-44, and will deal first with the defence services. This House is already aware and is justifiably proud of the part played by India in the campaigns in North Africa and Italy and I need not dwell upon them here. It will be sufficient to say that the trained soldiers and the stream of munitions and war stores poured out by India have been a most potent factor in the victories achieved in these theatres. In India itself the year 1943 has been to a large extent one of patient preparation and gathering of strength for the large scale offensive which, we all hope and believe, will finally dispose of Japan's pretensions to domination in Asia. The major event of the year has been the setting up of the South East Asia Command under Admiral Lord Louis Mountbatten as Supreme Allied Commander. The responsibilities of this new command are mainly the direction and co-ordination of the offensive based on India against Japan, but they also include the security and local defence of India within a

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relatively small area on India's north-eastern frontier. While however all responsibility for actual operations against Japan has thus passed out of India's direct control, she has been entrusted with weighty responsibilities in respect of the training and maintenance of the sea, land and air forces required for the grand offensive of which she will be the main base.

7. As I shall explain later, the setting up of this new command does not of itself either add to or diminish India's liability for defence expenditure. It is clear, however, that a substantial increase in the demands on India's resources of skilled manpower and materials, even though the cost were not borne by Indian revenues, would impose a severe additional burden on her economy which has already shown distinct signs of overstrain, and might even lead to a serious breakdown. This danger has been foreseen and a number of safeguards have been introduced to ensure that India's economic stability, on which depends not only the well-being of her people but her utility as a base for the operations in question, is not imperilled. This does not mean that any slackening of India's war effort or any repudiation of commitments entered into by her towards the other Allied Nations is contemplated. The Government of India have, however, made it clear that no further substantial increase in the overall quantum of war demands on India's resources can be met without grave risk of economic collapse, and that an early lightening of her present burden by the release for vital civil needs of certain types of supplies and productive capacity at present appropriated for war purposes, is essential in order to counteract the unhealthy tendencies now manifesting themselves. As regards extra demands for supplies and services only obtainable in India, which must inevitably arise out of her utilisation as an operational base, these can only be met provided equivalent relief is afforded by the diversion of war demands previously placed on her to other sources of supply or by other means.

8. The land forces in India continued to grow throughout the year, partly as a result of the bringing of additional forces into the country and partly by further raisings in India in accordance with the expansion plans, though owing to the increasing insistence on the maintenance of quality the rate of recruitment was lower than in the previous year. During the course of the year, as foreshadowed in last year's budget speech, these forces reached approximately the strength held to be necessary and sufficient for local defence purposes. How the strength in India will be modified in the near future by the combined effect of further increases in recruitment and movements of troops into and out of India, depends of course on operational developments. In any case, should the strength of troops in India at any time exceed the limit to which I have just referred, the cost of such excess would, as I will explain shortly, not fall on India.

9. Further improvements in the conditions of service of officers and other ranks of the Indian Army have been introduced or are in contemplation. Rates of corps pay admissible to I.C.O.'s employed in technical branches have been levelled up to those admissible to K.C.O.'s, while the rules governing the grant of disability and casualty pensions have been liberalised on the lines recently adopted by His Majesty's Government in regard to British service personnel. In the case of other ranks an important development has been the improvement, in accordance with medical advice and at a cost of about Rs. 6 crores per annum, of the scales of rations allowed for Indian troops so as to approximate them to the scales allowed on field service. In addition, military pensioners are sharing in the general increases recently sanctioned in the amounts of small Government pensions up to Rs. 40 a month.

10. The year under review has seen a further large increase in the volume of military stores handled in India, mainly due to steadily increasing arrivals of guns, ammunition, tanks, lorries, equipment of all sorts, raw materials and foodstuffs from the United Kingdom, the United States of America, Canada, Australia, etc. The administrative problem of providing storage accommodation for these large accretions, and for the staff and establishments required for their custody, distribution and maintenance, is one of the most difficult with

which the defence authorities in India have been faced, involving as it does extensive and costly building projects and the recruitment and training of technicians capable of handling and repairing the complicated machines required for modern warfare. Great progress has been made during the year towards meeting these requirements, although much still remains to be done. In particular, schemes for increasing the capacity of India's railway system and for providing the additional port facilities so essential to her as a base of operations overseas are rapidly going ahead.

11. The Royal Indian Navy has continued to grow, and in order to deal with the increased intake of personnel new training establishments were sanctioned and existing establishments expanded. The programme of new construction of ships in India is now well advanced and a considerable fleet of war vessels is now in commission. The value of the new fleet as an ancillary to the older navies of the Allied Nations is being more and more recognised. During 1943, in addition to carrying out its primary role of local naval defence of India, the Royal Indian Navy has been engaged in escort work and has also been employed in support of the army on the eastern front. Units of the Royal Indian Navy have moreover operated in British waters and participated in various operations in the Mediterranean including the invasion of Sicily.

12. The rapid expansion of the air forces in India continued throughout the year, which saw the arrival of many additional squadrons, some of types entirely new to India, together with ancillary and maintenance units of all kinds. The forces now in India are not only capable of dealing adequately with any attack by air that might conceivably be launched against her by the enemy, but they have for some time past been much in excess of the strength held by the Indian defence authorities to be necessary and sufficient for this purpose. India's liability for these squadrons, ancillary units and maintenance facilities arises, of course, only in respect of those held to be needed for purposes of her local defence. As regards the Indian Air Force, it is gratifying to record that the supply of modern aircraft is no longer a limiting factor in its expansion, and satisfactory progress has been made in implementing the main ten-squadron plan. Indeed, the chief limiting factor is now a lack of officer pilots. For both the ten-squadron plan and for India's participation in the Empire Air Training Scheme 70 pilots a month are needed, and unless the best of India's manpower comes forward to meet this requirement we shall not be able to build up the strong Indian Air Force which this country should possess.

13. In addition to the expansion envisaged in the ten-squadron plan and participation in the Empire Air Training Scheme, the Indian Air Force has undertaken four further important expansion measures. The first of these is the development in India of the complicated and extensive training and maintenance organisation necessary to back up her ten-squadron Air Force. The second is the introduction of a scheme for the appointment of a number of I.A.F. personnel to R.A.F. staffs and units in India, to gain experience in established units working under war conditions. This scheme is wide in its scope, and will eventually not only add thousands to the wartime strength of the Indian Air Force but also provide the basic material from which to build up a permanent training and maintenance organisation behind India's Air Forces. The third measure is the Indianisation of the Balloon squadrons of the Air Forces in India, and the fourth is the inauguration of the Indian Training Corps to give pre-entry training to prospective pilots at universities. Eight universities have started I.A.T.C. units under this last scheme.

14. The well-being and welfare of the services has been assigned a higher place both in administration and in the apportionment of financial resources than in any previous period. Physical fitness and thorough training must be allied with mental fitness, which can only be achieved if the fighting man knows what he is fighting for and also is assured of a reasonable standard of comfort and recreation when he is not actually training or fighting. Grants have accordingly been made for expenditure on the purchase of literature, games requisites, radio sets, gramophones, and so forth, as well as on the provision of recreational

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institutions, unit libraries and handicraft equipment. Increasing attention is also now being paid to the maintenance of morale on the "Home Front"—i.e., the protection of the interests and promotion of the well-being of the men's families, as on this depends to a great extent the morale of the fighting soldier; and grants from Defence funds are made for the purpose.

15. The effect on India's finances of these various developments in the defence field have now to be considered. The allocation of defence expenditure between India and the United Kingdom continues to be governed by the terms and principles of the Financial Settlement, and developments in the war situation and the establishment of the South East Asia Command have not rendered it necessary to depart from those principles. In accordance with those principles India's liability for the cost of forces serving within her geographical frontiers is subject to the condition that such forces are both necessary and available for local defence purposes. It has been recognised that the strengths of forces needed for such purposes at any time are subject to maximum limits, and limits of this nature have already been laid down by H. E. the Commander-in-Chief for both the land and air forces. These limits, or ceilings as they may be called, are of course related to the actual or probable threats to India's security at a specified time, and are therefore subject to revision in the light of developments in the war situation as a whole. The estimates and accounts of India's defence expenditure have thus to be prepared with due regard to those ceilings, as certified from time to time by the Indian defence authorities, which set bounds to her liability for the cost of the additional forces brought into or raised in the country. During the year 1942-43 neither of the ceilings came into effective operation, but in framing the estimates for subsequent years they constitute an important factor—particularly on the air force side.

16. As already indicated, so far as land forces are concerned the present ceiling has not yet been exceeded, and the revised estimates for 1943-44 have therefore been based on the actual strengths likely to be available in India for local defence purposes. In the case of the air forces, however, the ceiling was reached during the current year, and for some time past the strength of air forces in India has exceeded the ceiling strength by a considerable and steadily growing margin. It will be recalled that, pending arrival at an understanding regarding the air force ceiling, provision was made in the 1943-44 budget estimates for only half the extra expenditure arising out of the expansion of the air forces in India, the balance of the expenditure being included provisionally under suspense. The air force ceiling eventually prescribed turned out to be less than the estimated strength of air forces for 1943-44 and as a result the half share (amounting to Rs. 10·82 crores) of the estimated recurring cost provisionally taken under suspense became distributable between India and His Majesty's Government in the proportion of Rs. 8·98 crores to Rs. 1·84 crores.

17. So far as capital outlay on the provision of airfields and other operational facilities is concerned, it was found that all the airfields, etc., included in the 1943-44 programme were necessary to enable the air forces included within the ceiling to perform their function of defending India. Accordingly provision has been made in the revised estimates for the whole of such capital outlay, whereas in the budget estimate for 1943-44 a sum of Rs. 9·32 crores, representing one-half the estimated capital outlay on the expanded air forces, had, pending investigation of this point, been provisionally taken to suspense.

18. While the Defence estimates exclude the cost of forces serving in India in excess of ceiling strengths, India also bears no financial liability for other units or formations employed in India on duties unconnected with her local defence, or for measures such as those relating to the expansion of administrative and maintenance organisations, the acquisition and holding of additional stocks and the improvement of internal transportation and port facilities, which are incidental to the setting up of the South East Asia Command or to the utilisation of India as a base for large scale offensive operations against Japan.

19. The revised estimates of defence expenditure for the year 1943-44 amount to Rs. 262.64 crores and Rs. 38.30 crores under the Revenue and Capital heads respectively. The details are as follows:—

			(In lakhs of rupees).	
Revenue Portion.			Capital portion.	
	Budget	Revised	Budget	Revised
(1) Basic normal budget	36.77	36.77	2.52	14.67
(2) Effect of rise in prices	10.62	13.01		
(3) India's war measures	127.01	204.53	4.00	6.00
(4) Non-effective charges	8.41	8.33	2.85	10.85
			3.28	2.58
			4.20	4.20
			3.28	2.58
			4.20	4.20
			3.28	2.58
			4.20	4.20
Total	182.81	262.64	Total	16.85 38.30

In the revenue portion the increase of Rs. 2.39 crores in item (2) over the corresponding budget figure is due to the increase in the price levels of stores and to the grant of improved scales of rations to Indian troops from 1st July 1943. The increase of Rs. 77.52 crores in item (3) is due mainly to the two causes just mentioned, as well as to the inclusion of a portion of the recurring expenditure on the air forces provisionally placed under suspense last year, to increases in the strengths of forces in India and to increased supplies and services rendered by India to the U. S. A. on reciprocal aid terms. A reduction in the estimated total of receipts on account of lend-lease stores supplied to Provincial Governments, Railways, the Posts and Telegraphs Department and other paying indentors from Rs. 15 crores to Rs. 12 crores has also contributed to the excess.

The estimate of non-effective charges shows a slight reduction due to the restrictions on retirements and the re-employment of pensioners. The reduction is less than it would otherwise have been owing to the inclusion in the revised estimate of provision for the general increase in small pensions with effect from the 1st November 1943.

The amount included in the budget for capital expenditure against item (1) was Rs. 2.52 crores, Rs. 9.32 crores being held under suspense. The revised estimate therefore represents an increase of Rs. 2.83 crores over budgetary anticipations, which is due mainly to unexpectedly heavy liabilities carried forward from 1942-43. The increase of Rs. 2 crores in item (2) arises out of unforeseen expansions of ordnance factories and dairy farms during the year. Item (3) shows an increase of Rs. 8 crores due partly to a heavier carry-over of liabilities from 1942-43 and partly to additional demands for airfields and connected works required by the U. S. A. forces in India. The decrease of Rs. 70 lakhs under item (4) is due mainly to a carry-forward of liabilities to 1944-45.

20. Civil expenditure in the current year is now estimated at Rs. 84.29 crores, an increase of Rs. 7.51 crores over the budget provision of Rs. 76.78 crores. Self-balancing items on account of War Risks Insurance, the Cotton Fund and the Sugar (Temporary Excise) Ordinance, 1943, account for Rs. 1 crore of this increase. A further excess of Rs. 3 crores results from the inclusion of provision in the revised estimates for a grant to Bengal up to this amount in consideration of the heavy expenditure which the Province has to incur for the relief of famine. It is felt that the calamity which has befallen Bengal is of so exceptional a character and of such magnitude as to justify a substantial contribution from Central resources this year and next. The actual amount of the grant in each year will be a proportion of the expenditure actually booked under certain famine heads. The cost of financial assistance to evacuees from enemy-occupied territories and to the families in India of British subjects detained in those territories, including the strengthening of Provincial organisations which have been set up for dealing with these problems, will exceed the budget provision by about Rs. 2 crores. Particulars of other variations will be found in Statement No. VII of the Explanatory Memorandum and I will not

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wear the House by elaborating them now. I would however mention, in passing, that the Government have recently considered carefully whether the somewhat uneven effects of the impact of war on Provincial finances called for temporary modification of the manner in which the Provincial share of the divisible income-tax pool is allocated between the provinces as prescribed in paragraph 5 of the Government of India (Distribution of Revenues) Order, 1936. A full examination of recent developments in the finances of all provinces led to the conclusion that, although some provinces are clearly in a more prosperous condition than others, the situation is not such as to call for modification at present, and that such action would have an unsettling effect. This view is shared by the Secretary of State.

21. There is another proposal in the field of Provincial finance, which emanated from the Government of Sind, which might appropriately be mentioned here. I refer to the proposal to set off the capitalised value of the Sind subvention against the outstanding balance of the Lloyd Barrage debt, the difference being paid by the Government of Sind from their free balances. With the subvention capitalised on the basis of a rate of interest of 4½ per cent. per annum, which is the rate borne by the Barrage debt, the balance of debt as on the 1st April 1944 would be about Rs. 5½ crores. It is indeed a tribute to the prosperity of Sind and to the prudent handling of her finances that the Province will be in a position to meet this charge and so to relieve itself of a heavy capital liability. The Government of India decided, in view of the great change in conditions since the original repayment scheme was devised, (in particular, a greatly accelerated rate of land sales which is increasing present revenue at the expense of future receipts) to support the proposal to the Secretary of State, who is now taking the necessary steps to secure an amendment to the relevant Schedule of the Distribution of Revenues Order in Council.

22. The revised estimates for the current financial year 1943-44 can now be summarised as follows:—

	Budget	Revised	(Rs. in lakhs).
			Improvement (+) Worsening (—)
Net Defence expenditure (revenue portion)	182,81	262,64	—79,83
Civil expenditure (revenue portion)	76,78	84,29	—7,51
Total expenditure	259,59	346,93	—87,34
Total revenue	219,00	254,50	+35,50
Deficit (—)	—40,59	—92,43	—51,84

The net result of an improvement in revenue of Rs. 35.50 crores and an increase in expenditure on revenue account of Rs. 87.34 crores is that the revenue deficit for the year will increase by Rs. 51.84 crores to Rs. 92.43 crores.

23. I pass now to a consideration of the estimates for the coming year 1944-45. Total revenue we place at Rs. 284.97 crores, i.e., Rs. 30.47 crores higher than the revenue for the current year according to the revised estimates. We have assumed a rise of Customs revenue by Rs. 1 crore in the expectation that an improvement in the European war situation will release more shipping for our imports. Central Excise revenue has been marked up by about Rs. 1½ crores mainly for the reason that the yield of the tobacco excise should improve as a result of the increased efficiency resulting from experience of the administrative machinery which was introduced in the current year. Under Taxes on Income we are providing for a total revenue of Rs. 174 crores as compared with Rs. 138 crores in the revised estimates for the current year. Excess Profits Tax alone is expected to yield Rs. 78 crores. On the basis of our figures the share of income-tax distributable to the Provinces will reach the phenomenally high figure of Rs. 23.69 crores. The contribution to general revenues from the Railways is expected to fall nearly a crore below that of the current year, but the surplus of the Posts and Telegraphs Department, which also accrues to

general revenues, will show an improvement of nearly Rs. 2 crores notwithstanding that an extra crore of rupees will be transferred to the Renewal Reserve Fund in consideration of the large capital outlay on the Telecommunications scheme. Receipts on account of War Risks Insurance premia are expected to decrease in the coming year by Rs. 4 crores as the result of a lowering of the rates of premia.

24. The budget estimates of defence expenditure for 1944-45 amount to Rs. 276.61 crores and Rs. 24.60 crores under the Revenue and Capital heads respectively. The details are as follows:—

Revenue portion.			(In lakhs of rupees).		
	Revised 1943-44	Budget 1944-45	Capital portion.	Revised 1943-44	Budget 1944-45
(1) Basic normal budget	36.77	36.77	(1) Air Force—Airfields	14.67	10.00
(2) Effect of rise in prices	13.01	15.05	(2) Capital outlay on industrial expansion	6.00	2.00
(3) India's war measures	204.53	215.58	(3) Reciprocal Aid—airfields	10.85	5.20
(4) Non-effective charges	8.33	9.21	(4) New construction for R. I. N.	2.58	1.60
			(5) Capital outlay on Telecommunications scheme	4.20	5.80
Total	262.64	276.61	Total	38.30	24.60

In the revenue portion the increase of Rs. 2.04 lakhs over the revised estimates in item (2) is due partly to the fuller operation of the enhanced price levels and partly to the fact that the improved scales of rations to Indian troops introduced in July 1943 will be effective throughout 1944-45. In regard to item (3) the increase of Rs. 11.05 crores as compared with the revised estimates is the net result of large increases and decreases. The increases are mainly due to the two causes just mentioned, to provision having been made throughout the year for the full air force ceiling strength, and to increased supplies and services expected to be rendered by India to the U. S. A. on reciprocal aid terms. These increases are partly counterbalanced by reductions in expenditure as a result of anticipated despatches of troops overseas and of a decrease in army works. The receipts to be realised during 1944-45 on account of lend-lease stores supplied to Provincial Governments, Railways, the Posts and Telegraphs Department and other paying indentors, have been roughly estimated at Rs. 10 crores. The increase of Rs. 88 lakhs in non-effective charges reflects mainly the effect over a full year of the increases in small pensions sanctioned from November 1943.

The decrease of Rs. 13.70 crores under the Capital portion of the budget estimate as compared with the revised is due mainly to the completion in 1943-44 of the bulk of the airfields construction programme for the British and American Air Forces in India for the cost of which India is liable. A reduction during 1944-45 in the Capital expenditure on expansion of factories, dairy farms, etc., is also anticipated. The telecommunications scheme is expected to be nearly completed during the coming year.

25. Last year I referred to the possibility of India's entering into a direct Mutual Aid Agreement with the U. S. A. After preliminary discussions it was agreed to suspend these negotiations in view of the difficulty of determining India's post-war policy in certain respects at this stage. The Government of India nevertheless have accepted the principles underlying Mutual Aid, and continued to receive lend-lease goods and services from the U. S. A. and to grant Reciprocal Aid in return. This Reciprocal Aid now takes three main forms:—

(a) Reciprocal Aid to the U. S. forces in India in the shape of rations, clothing, ordnance and other stores, the construction of accommodation, airfields and connected works, and the provision of transportation, communication and maintenance facilities of various kinds.

(b) Reciprocal Aid to U. S. shipping using Indian ports, in the shape of port dues of all kinds, ship repairs, and so on.

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(c) Available raw materials and available foodstuffs such as tea, required by the U. S. Government directly for war purposes.

The arrangements for granting Reciprocal Aid of the first two kinds are working smoothly, but the administrative arrangements governing Reciprocal Aid for raw materials are still being worked out.

26. The estimated cost of Reciprocal Aid to be afforded to the U. S. A. on present information during the years 1943-44 and 1944-45 is about Rs. 26 crores and Rs. 43 crores respectively, and provision has been tentatively included in the revised and budget estimates of the years concerned for these sums. The total cost of such aid up to the end of 1942-43 was Rs. 12½ crores so that the estimated progressive total amount to the end of 1944-45 is a little more than Rs. 81 crores.

It is not possible at present to say what the total financial benefit that India will receive as a result of lend-lease supplies from the U. S. A. during the same period will amount to, because the allocation of lend-lease goods and services received in India between the Government of India and H. M. G. has not yet been determined. Assuming that lend-lease goods and services continue to be received in India at approximately the same rate as is obtaining now, the total value thereof up to the end of 1944-45 may be estimated to be of the order of Rs. 350 crores. The allocation of these benefits between H. M. G. and the Government of India is a matter of great complexity, since it can only be based on the actual use to which the goods and materials will have been put and the classification of that use in terms of measures for which H. M. G. and India are respectively liable. On such investigation as we have been able to make up to the present it seems reasonable to assume that India's share in these benefits will not be less than one-third. For the reasons explained last year, however, any estimates of Reciprocal Aid and still more those of lend-lease must be taken with very considerable reserve.

27. Civil expenditure during 1944-45 is estimated at Rs. 86.57 crores, or about Rs. 2½ crores above the revised estimates for the current year. The distribution of the variations between the various heads and the reasons which have led to them are explained in detail in the Explanatory Memorandum, and little comment is called for here. The most outstanding item as regards amount is the increase of about Rs. 9 crores under Interest Charges. This, of course, reflects our increased borrowings and the success which is attending our savings campaign. There is a reduction of Rs. 4 crores in the amounts transferred to the War Risks Insurance funds consequent on the reduction in the rates of premia to which I have already referred, and also a reduction of Rs. 1½ crores in civil defence expenditure. Provision has been made for a contribution up to Rs. 1½ crores towards Bengal's expenditure on famine relief, to which also reference has already been made. Of special interest to the House will be the provision which has been made for a grant of Rs. 10 lakhs for the construction and equipment of glass and fuel research laboratories and for general planning for other institutions. The Council of Scientific and Industrial Research is now, with the approval of Government, engaged in drawing up plans for a coordinated scheme for the advancement of research on the assumption that Rs. 1 crore will be forthcoming towards capital expenditure on a chain of research institutions. The institutions in contemplation, in addition to the two just mentioned, are a National Physical Laboratory, a National Chemical Laboratory and a National Metallurgical Laboratory. The balance of Rs. 1 crore will be spread over a period of 3 or 4 years after the cessation of hostilities. The Government anticipate that this step will be regarded as what it is, *viz.*, a practical expression of the Government's resolve to foster the development of Indian industry, and trust that it will serve as an incentive to private enterprise to come forward and support industrial research. The Tata Trust have already generously responded by supplementing their promised donation of Rs. 8.90 lakhs towards a National Chemical Laboratory by a further donation of Rs. 11.70 lakhs towards the proposed National Metallurgical Laboratory, thus making Rs. 20 lakhs in all.

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

	Revised 1943-44	(In lakhs of rupees).	
		Budget 1944-45	Budget Improvement (+) Worsening (—)
Net Defence expenditure (revenue portion)	262,64	276,61	—13,97
Civil expenditure (revenue portion)	84,29	86,57	—2,28
Total expenditure	346,93	363,18	—16,25
Total revenue	254,50	284,97	+30,47
Deficit (—)	—92,43	—78,21	+14,22

With revenue at the existing level of taxation, we thus face a prospective deficit on revenue account of Rs. 78.21 crores. At this point, however, I must, in accordance with precedent, digress in order to give an account of the ways and means position and of the various questions which arise in connection therewith.

29. War conditions have imparted to the problem of ways and means a wider significance than it had in the past. All belligerent countries are faced with the difficult but imperative task of large scale reabsorption of the huge output of money required to mobilise the supplies and services needed for the war, so as to reduce the pressure of widespread surplus purchasing capacity on the limited supplies available for civilian consumption. In India the problem is complicated by the war expenditure incurred here by His Majesty's Government and other Allied Governments, which more than equals that debitable to Indian revenues. The latter has always been covered, and more than covered, by taxation and borrowing; but it has not been possible hitherto to raise sufficient funds from the market to finance the whole of the recoverable war expenditure. The gap has necessarily to be filled by the issue of rupees which means excessive spending power in this country because the external assets by which they are backed cannot be converted into goods to more than a limited extent while the war lasts. The resultant inflationary potential is liable to burst into flame whenever, for any reason, public confidence is disturbed and fanned by the speculative influences which then become unleashed, to cause considerable damage to the social edifice. The House is aware of the counteraction of various kinds which the Government have taken to meet this situation, such as increasing the supply of consumer goods by expansion of production or by import, direct economic controls, and monetary regulations, and of the main limiting factors governing each class of measure to which I referred at the beginning of this speech. In the present context it is necessary to stress the supreme importance of borrowing, and ever more borrowing, to preserve the economic health of the country. The primary and fundamental object of our borrowing in present conditions is not so much to cover our budgetary deficits as to bridge what may be called the "inflationary gap".

30. While this main purpose was by no means achieved in its entirety during the past year, the response to the efforts that were made to attract support to public loans has been definitely encouraging. The borrowing programme has been designed to provide an attractive investment for every taste and for each type of demand, and total investments have amounted during the last 12 months to Rs. 270 crores, or three times the amount secured in the previous year. The programme for institutional investors is now of so varied a character that there seems little scope for offering any fresh attraction. I have mentioned on several occasions in this House the reasons why the Government are not prepared to accept the suggestion which has been made in certain quarters for an enhancement of the rates of interest. The Government are convinced that those reasons continue and are essentially sound and that such a move, besides being infructuous, would be fraught with the most unfavourable consequences both now and in the future. Another suggestion which has been frequently mooted is that His Majesty's Government or other Allied Governments should themselves borrow in the Indian market; but at a time when the Government

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of India themselves are borrowing at maximum intensity it is not credible that total borrowings would be increased by the mere substitution of the credit of an outside Government for that of the Government of India. Reliance must therefore mainly be placed upon more widespread and more persuasive loan propaganda and a growing appreciation on the part of the people of the country that they must, while the war lasts, in their own interests and in the interests of the country, save and lend.

31. I will now give the House very briefly the actual results of our loan operations during the year ending 31st January 1944. The Third Defence Loan 3 per cent. 1951—54 was closed on the 30th of June 1943 when it had reached a total of Rs. 55 crores, the amount subscribed within the year, i.e., from 1st February to the 30th of June, being Rs. 23 crores. The Fourth Defence Loan 3 per cent. 1953—55 was opened on the 3rd July 1943 and the subscriptions received during the seven months down to the 31st of January 1944 amounted to Rs. 81 crores. In May 1943 a special issue of 3 per cent. Defence Bonds 1946 for Rs. 20 crores was made, the total sales of which now aggregate Rs. 19 crores. In July a special issue of the 3 per cent. 1963—65 loan fetched Rs. 15 crores, while in October an issue of 3 per cent. funding loan 1966—68 for Rs. 25 crores was made, of which Rs. 20 crores were taken up by subscription and the balance of Rs. 5 crores subsequently sold through the Reserve Bank. Recently a further issue of Rs. 50 crores of this loan has been made and of this Rs. 4½ crores have already been sold. In August it was announced that, to assist in the funding of the liabilities connected with the acquisition of 2½ per cent. and 3 per cent. undated sterling stock, counterparts of 3½ per cent. paper would be created of the aggregate value of these two loans and would be sold through the Reserve Bank. Demand for counterparts has been considerable, especially for 3½ per cent. paper, the total amount sold during the year in question being Rs. 93 crores. Finally, as was the case last year, about Rs. 8 crores of new money was subscribed to certain Provincial loans floated to enable the Provinces to repay a part of their consolidated debt to the Centre. The sum total of all these investments, inclusive of Rs. 10½ crores from Defence Savings and National Savings Certificates, over the last twelve months is, as I have already mentioned, Rs. 279 crores, or more than half the total loan money raised since the beginning of the war. Premium bonds in denominations of Rs. 10 and Rs. 100, carrying no interest but in respect of which half-yearly prizes, representing a rate of interest to Government of 2 per cent. per annum free of income-tax, will be allotted, have been issued from 15th January. It is too early yet to estimate the probable response to this issue.

32. Much of the excess purchasing power which is being released as a result of defence activities is, however, passing into the hands of those who are untouched by direct taxation and who are unaccustomed to investment in Government loans. It is this money particularly which exercises a direct pressure upon prices, and it is extremely important therefore from the anti-inflationary point of view that as much of it as possible should be drawn off. Increasing attention has accordingly been paid by the Government during the past year to the stimulation of small savings. From the 1st October the Post Office 10-year Defence Savings Certificates were replaced by 12-year National Savings Certificates, which are unencashable for the first three years but which yield to maturity nearly 3½ per cent. per annum compound interest free of income-tax. From the same date the rate of interest on Post Office Savings Bank deposits was raised from 1½ per cent. to 2 per cent. The results have been definitely encouraging; and while this may be due partly to the favourable turn in the progress of the war, the main credit for the improvement is undoubtedly due to the active and energetic assistance and cooperation rendered in this field by Provincial and State Governments, without which little progress could have been achieved. Until the end of the year 1942-43 the contribution of the small saver was actually negative, since net withdrawals were consistent and substantial. During 1943, however, there has been consistent and increasing

investment, which is now running at the rate of over Rs. 2½ crores a month with the trend still upwards. If however, the small saver is to play the part which he can and should towards the countering of inflationary tendencies, a very great deal more must be done in this field than has yet been achieved. For this purpose the Government appointed last autumn a National Savings Commissioner to direct and control the small savings movement from the Centre. A scheme has been evolved for the employment of authorised Agents who, working on a commission basis, collect money for investment from the villagers, purchase certificates on their behalf and deliver them in the villages, thus bringing as it were the facilities of the Post Office to the very doors of the small saver himself. The scheme has already been accepted by most Provinces who, in working it, will receive the assistance of a whole-time staff paid by the Centre. In connection with the scheme Savings Bureaux have been opened in all important towns, and an honorary Lady Organiser has been engaged to enlist the help of women's organisations. With the assured cooperation and backing of Provincial and State Governments and the enthusiasm of the organisers of this new scheme the Government of India are confident of a still further substantial improvement in this important field.

33. In this connection I should perhaps mentioned another important anti-inflationary measure which has attracted considerable public attention, viz., the sales of gold which have been conducted by the Reserve Bank for the last six months. Notwithstanding the advantages of investment in Government securities over investment in gold, and the liberalisation of the terms of investment which Government now allow to the small saver, there remain some who for one reason or another refrain from investing their savings and look instead to the traditional alternative of the precious metals. This preference, primitive and illogical though it may be, can now be met with the gold which is being sold by the Reserve Bank. This gold has been provided by His Majesty's Government and the Government of the U. S. A. from their own resources, and the sale proceeds are used by them towards their war expenditure in India. The import of the gold has thus usefully reduced the gap between India's exports and the restricted imports of other commodities which are available in present circumstances, and by its direct effect in absorbing surplus purchasing power, as well as by its indirect influence, has materially supplemented the other measures which the Government have been taking to counter inflation and check the rise in commodity prices.

34. The sterling balances held by the Reserve Bank of India as the result of recovery of war expenditure from His Majesty's Government and Allied Governments and market purchases on current trade account continued to accumulate during the year, and it is estimated that the total holding on the 31st March 1944 will be the equivalent of Rs. 950 crores. Repatriation of India's external debt has been practically completed, and the question of the utilisation of the sterling balances constantly engages the Government's attention. The 3½ per cent. railway debentures for which notice of redemption was given last year, were redeemed on 4th February 1944, the amount paid being £8.8 million sterling; while stray outstandings of previous repatriations amounting to £3 million were also dealt with during the year. The total amount of sterling obligations redeemed to date, including Government of India's stocks, railway annuities, railway debentures, purchase of railways and India's share of the Chatfield debt, comes to about £350 million. Sterling liabilities to the value of only £11½ million are now outstanding, consisting of Government of India stock and small amounts of railway debentures, which either fell outside the scope of the vesting orders or in regard to which there has been delay in surrendering the scrip for redemption. Arrangements have further been made for the acquisition of the Madras and Southern Mahratta Railway and the South Indian Railway on the 1st of April 1944, which will absorb a sum of approximately £6 million. The unfunded floating debt which was created for the purpose of financing these

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repatriation operations, which stood at Rs. 160 crores last year, has now been reduced to about Rs. 20 crores.

35. Technical discussions have been, and still are, taking place in respect of various proposals which have been put forward for postwar international monetary arrangements but, although original divergences of outlook have been narrowed, no agreed plan has yet been evolved for the consideration of the Governments of the countries concerned. The Government of India have invited opinions in this country on the proposals in general, and the subject has also been discussed in the General Policy Committee for Reconstruction. After an opportunity has been afforded for discussion in the Legislature the Government will be in a position to formulate their views. It is expected that in due course a conference of all the United Nations will be convened, at which India as one of the United Nations will be represented, but there is no indication at present when that stage will be reached. The matter will obviously be one of vital importance to India, having regard to the large scale reconstruction and development programme, including a forward policy of industrialisation, which is contemplated in the post-war period for the purpose of raising the low standard of living in this country, and the part which India's external assets will be required to play in that connection. This latter aspect of the problem was discussed with His Majesty's Government in connection with the acceptance by India of the general principle of the extension of reciprocal aid to raw materials and foodstuffs. His Majesty's Government fully sympathise with the desire of the Government of India to make such advance provision as may be practicable during the war for the requirements of post-war development; and they have agreed, as an integral part of the reciprocal aid arrangement, to set aside each year from now onwards a part of the dollars accruing from India's exports to the U. S. A., apart from and in addition to India's current dollar requirements which are met from the Empire pool under the usual sterling area arrangements. These amounts will be held in a dollar account by the Reserve Bank of India with the Bank of England, and will thus be immediately available for India's development purposes after the war.

36. This raises the general question of post-war reconstruction finance, regarding which something should perhaps be said at this stage, since it is a subject not only of considerable public thought and attention at the present time but also with a very real bearing on the budget proposals for the coming year. The Government and the public alike realise that, if any effective development is to take place after the war, very large sums are bound to be involved. National development on a wide scale cannot be other than a costly process in terms of money, but the same is true of war, and that is the first point of contact between the present and the future. Our finances are even now on a scale which would have alarmed an earlier generation. The second point of resemblance between war finance and reconstruction finance follows automatically from the first, in that both involve a continuously high level of taxation and of borrowing. While it is true that development expenditure might be expected to bring about an increase in the real income of the country and therefore, in some respects and to some extent, in its taxable capacity, it is nonetheless equally true that certain development projects, notably education and public health, can never be made financially self-supporting, but will involve, besides considerable capital outlay, a very heavy recurring charge on the general budget. This basic element of the position needs to be faced in a spirit of realism, since it would be unwise and unsafe to plan on the assumption that money can be created to fill whatever gap may emerge, however indeterminate its size. The influence of improved health and a higher standard of education on national income, though real and of the utmost value, will necessarily be indirect and remote; whereas the disturbance to the price mechanism caused by continued output of created money over a number of years will be immediate and direct. The effect of such disturbance might be held in check, for a time and up to a point, by comprehensive controls drastically enforced; but, even assuming a willingness on

the part of the Government of the day to enforce total controls for years after the advent of peace, a continually increasing and prolonged internal inflationary pressure would, in the conditions of this country, place so severe a strain upon its limited administrative machine as to involve an undue risk of financial and economic collapse before the benefits of long term development plans could materialise.

37. The problem in essence is this. The cost of a large scale programme of development in terms of money cannot be other than immense. That cost has inexorably to be paid, and paid in full, by someone, at some time, in the form of abstention from or reduction of consumption. If the cost is met from the proceeds of taxation and savings, the sacrifice involved can be controlled and equitably distributed. If, on the other hand, any appreciable portion of the cost is provided by created money, the sacrifice involved will be ill-distributed, uncontrolled and liable to cause the most severe hardship to the less influential sections of the community. The conclusion would thus seem to be irresistible that the first prerequisite of reconstruction finance is a sound financial position, both at the Centre and in the Provinces, secured by the fullest development of their respective taxation resources. This however by no means implies that post-war development on the scale on which the public is thinking and the Government is planning must be ruled out, or that its pace must be reduced to that of the bullock-cart. Even amid the difficulties of war funds are being built up in the Provinces from the proceeds of anti-inflationary taxation measures, which will provide them with an opening balance and an improved revenue position and so enable them to make an immediate start on their more urgent schemes when conditions permit. For the fuller realisation of their plans Provinces will, however, require a considerable measure of financial assistance from the Centre; and with a view to obtaining some idea of the resources which the Centre may be in a position to command for this purpose, as well as for the implementation of such plans as naturally fall to the Centre, a review has been made of the post-war budgetary position of the Central Government, in so far as the many uncertainties inherent in the conditions of the present and the future permit. The broad assumptions on which that review was based are, that a reasonably speedy rate of demobilisation after the conclusion of hostilities is attained; that world conditions are such as to permit of full production and employment; and that the Government of the day will not hesitate, in the interests of the future development of the country, to develop and exploit to the full its taxation and borrowing possibilities. The review indicates that, on the basis of these assumptions, and after the first year or so when revenue deficits are being worked off, reconstruction plans perfected and administrative arrangements developed, it should by no means be impossible for the Central Government to mobilise during the first effective quinquennium total resources approximating to the Rs. 1,000 crore level, within which limit recurring commitments could be accepted to the extent of something like Rs. 100 crores per annum. These figures, I should explain, are exclusive of direct private investments. Progress in later periods would naturally have to be related to the actual results of the first quinquennium and it is not unreasonable to suppose that the relationship would be of the geometric progression variety; but little practical purpose would be served by attempting at this stage to express that general idea in terms of actual figures.

38. I now come to the Government's proposals in regard to the prospective deficit for the coming year which, as I have already informed the House, is estimated on the basis of present arrangements to amount to Rs. 78.21 crores. Present necessity and future needs both indicate the paramount importance of strengthening our financial and economic position by every means at our command, and the first and most essential step in that direction is to lay the menace of inflation. With a view to achieving this major objective the Government plan a concurrent threefold attack. In the first place, they intend to stabilise the net overall demands placed upon Indian resources for the purposes of the war, compensating as far as possible for any inevitable increases by imports of food, bullion or other capital and consumer goods, or by corresponding release

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of indigenous productive capacity for meeting civilian requirements. In the second place, the Government are determined to maintain and extend their various economic controls. Thirdly, and this is the objective of immediate relevance to the budget proposals, they will endeavour to step up by every means within their power the rate of rupee incomings from taxation and borrowing so as to equal as nearly as possible the total of rupee outgoings in the country. The uncovered gap has, according to our calculations, been running at the rate of some Rs. 250 crores a year, although it is anticipated that measures which have already been put into operation will result in a considerable reduction in the figure for the coming year. The proposals which I have now to place before the House are designed virtually to close this inflationary gap between total outgoings and total incomings of rupees, and so to check the insidious process which is capable of causing immense suffering to the people of the country.

39. The proposals are of two kinds, measures of ordinary taxation and measures of the nature of compulsory deposit. The most important of the latter is a provision for advance payments of tax on income from which tax is not now deducted at source. The income mainly affected will be income from property and from business, profession or vocation. The main outlines of the scheme, which will be brought before the House in an Income-tax Amendment Bill, are as follows: An assessee will have the option to pay tax quarterly either on the basis of his last assessed income or on the basis of his own estimate of current earnings. Government will pay 2 per cent. interest on all sums paid in advance under the scheme but if the assessee's own estimate, which can be revised during the year, falls short of 80 per cent of the tax determined on regular assessment, penal interest at 6 per cent. on the difference will be payable. No penal interest will, however, be payable where the assessee chooses to pay on the basis of his last assessed income. To secure compliance with the scheme, certain provisions of the penalties section of the Income-tax Act—section 28—are imported, and failure to make payments under the scheme will be treated as a default. Credit for tax paid under the scheme will be given to the assessee in the regular assessment. The sums collected will be treated not as revenue but as deposits, to be taken to revenue when the regular assessments are made.

40. As regards Excess Profits Tax, the proposals make no change in the rate of tax, which remains at 66 $\frac{2}{3}$ per cent. Nor do they make any change in the proportion of the tax, namely, one-tenth, which is to be repaid to the assessee. But the compulsory deposit of one-fifth of the tax, which was prescribed in Ordinance No. XVI of 1943, is to be increased to 19/64 of the tax. The effect of this will be to immobilise as deposits the whole of the excess profits remaining after E. P. T. has been paid on them and income-tax and super-tax has been paid on the balance. This compulsory deposit has not hitherto been payable in connection with provisional E. P. T. assessments made under the provisions of the Ordinance. We now propose that at the time of the provisional assessment a compulsory deposit of 19/64 of the tax provisionally assessed shall be paid.

41. In regard to rates of income-tax, the Government propose to give relief at the bottom of the scale by raising the taxable minimum from Rs. 1,500 to Rs. 2,000. In regard to incomes up to Rs. 10,000 no change is made, but on the slab of income from Rs. 10,000 to Rs. 15,000 the Central surcharge is to be increased by 2 pies from 16 to 18 pies, in addition to the basic rate of 24 pies; and on the balance above Rs. 15,000 the surcharge will be increased by 4 pies from 20 to 24 pies, in addition to the basic rate of 30 pies. This latter rate will, of course, apply to Companies and in every case where the tax is to be charged at the maximum rate. As regards super-tax, there will be an increase of half an anna in the Central surcharge on the slabs of income between Rs. 35,000 and Rs. 2 lakhs. Corporation tax will also be raised by one anna to a rate of 3 annas in the rupee, but a rebate of one anna in the rupee will be given on so much of a Company's total income as is not distributed in dividends other than dividends payable at a fixed rate. A special provision is being made for Life Insurance businesses by which the combined rate of income-tax and super-tax is

limited to 63 pies, which was the combined rate for Companies fixed by the 1942 Finance Act. It is also proposed to give retrospective effect to this provision for 1943-44. From these changes in rates the additional revenue is estimated at Rs. 8½ crores.

42. In regard to customs duties, it is proposed to continue for a further period of one year the emergency surcharge on the import tariff which has been levied for the last two years. It is hardly necessary to repeat, in the present context, that this is purely a revenue measure. The rate of the surcharge will again be one-fifth of the basic duties except in the case of tobacco and spirits, where it will be one-half. The additional receipts from the increased surcharge on tobacco and spirits, which will come into effect at once, are roughly estimated at Rs. 1 crore.

43. In the field of Central Excises there are important changes. The Government propose to increase the rates of duty on unmanufactured tobacco and on cigars and cheroots, and to introduce three new taxes. The tobacco excise is, in India as in other countries, an almost unrivalled means of raising revenue, and is destined to play an important role in the financing of post-war development. The present modest rates of duty were adopted in the initial stage to allow of the building-up of the widespread organisation necessary for the operation of such an excise in so vast a country. Thanks to the efforts of the executive staff, the preliminary organisation has been completed more quickly than might have been expected and it is now possible to raise the duty to a more productive level. The opportunity has been taken to recast the scale of duties in a somewhat simpler form. The additional yield from the enhanced duties is estimated at Rs. 10 crores; they will take effect at once by virtue of a declaration under the Provisional Collection of Taxes Act.

44. The three new items which it is proposed to include in the Central Excise Tariff are betelnuts, tea and coffee, the rate of duty in each case being two annas a pound. The arguments in favour of the excise on betelnuts are generally the same as in the case of tobacco: the total consumption is large and spread through all classes; it is not a necessity of life; and the average consumption per head is small, so that the impact of the tax on the individual will be slight. And since chewing tobacco is already taxed it is not unreasonable that a similar impost should be placed upon its rival. Betelnut has not been the subject of an agricultural marketing survey and full statistics of production are not therefore available, but on the data gathered by the Central Excise staff the total annual yield from the rate of duty now proposed is roughly estimated at Rs. 2 crores. Like the tax on betelnuts, those on tea and coffee have been introduced in order to broaden the basis of indirect taxation. Both are suitable subjects for an excise duty and the one could hardly be introduced without the other. At the rates now proposed the two excises are together expected to yield a total sum of approximately Rs. 2 crores in the coming year.

45. The total estimated yield of the taxation proposals thus amounts to Rs. 23½ crores, reducing the prospective revenue deficit from Rs. 78.21 crores to Rs. 54.71 crores. But, for anti-inflationary purposes, we have to reckon the total effect of new measures of taxation and compulsory deposit, including the addition to railway fares, and this approximates to Rs. 100 crores. Together with all the other measures which are concurrently being directed to the same end, this is expected firmly to check the inflationary trend and to facilitate the maintenance of all our controls. At the same time this programme will assist the preparations for post-war development, by providing for the regular building up by industry of the necessary reserves, as well as by fortifying permanently the revenue resources of the State.

46. In the last-named direction much still remains to be done. In particular the Provinces, on whom so large a share of the building of the future inevitably falls, will need expanded resources. The Government therefore have under active consideration the possibility of an estate duty on non-agricultural property, which would be levied by the Centre but of which the proceeds would be

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assigned to the Provinces. In spite of war-time taxation it is indisputable that enormous private fortunes have been made during the war, aggravating the great inequality which already existed. Even on a modest programme vast sums will be needed for the post-war development of the country, and there is manifest justification for a system of death duties whereby these large fortunes will be laid under contribution. We have encountered, as we expected, certain initial difficulties but we hope to overcome those and to be in a position to place a carefully prepared measure before the legislature at a subsequent session. I have no doubt that such a measure would not only fill a gap in the fiscal armoury of India but could serve a great social end.

47. The picture, Sir, is now complete. It covers a somewhat wider canvas than has been customary in the past, because today it is the distant view which provides the most appropriate setting to our panorama. Critics will doubtless have faults to find with details of technique, of execution or of relative proportion in various parts of the picture, but the important thing is that the general conception be sound and the general perspective true. India, in developing her strength and her resources along with her hopes, is providing the surest ground for encouragement to those who have faith in her greatness in the world that is to be after final victory is won. (*Applause.*)

The Council then adjourned till Eleven of the Clock on Tuesday, the 7th March, 1944.