

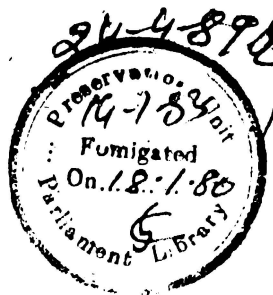
29th February 1944

THE
LEGISLATIVE ASSEMBLY DEBATES
Official Report

Volume II, 1944

(29th February to 27th March, 1944)

TWENTIETH SESSION
OF THE
FIFTH LEGISLATIVE ASSEMBLY
1944



LEGISLATIVE ASSEMBLY

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LEGISLATIVE ASSEMBLY

Tuesday, 29th February, 1944.

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

THE BUDGET FOR 1944-45.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, this is the fifth war budget which it is my duty to present to the House, and I do so at a time when the growing ascendancy of the United Nations over their enemies has created in us all the fullest confidence in a victorious outcome, though the precise time and manner of that victory are still hidden from us. We can now look back and survey the grim vicissitudes through which we have passed. In India the last eighteen months has been a period of economic storm. The rapid advance which brought the Japanese to the eastern threshold of India had produced a widespread feeling of uncertainty, at the same time as it called for the most active measures to meet the threat. The execution of those measures necessitated very heavy expenditure and a vast and rapid diversion of resources from civilian to war consumption. At that critical moment there was an outburst of internal disturbance which aggravated the loss of confidence and the economic instability. Natural calamities—cyclone, flood and pest—also played their part in destruction and dislocation. Soon hoarding, speculation and profiteering manifested themselves in every form and on a scale to cope with which the administrative machine was but poorly equipped. There was a time when it seemed that there could be no check to the ravages of these pernicious forces and that salutary measures of control could never overtake them. At that moment the economic perils which beset the country were as grave as the military threat, and if they have now receded somewhat, the aftermath has been a measure of human suffering which will stand out even in the record of this devastating war.

2. Many of the problems with which we have had to grapple are still with us, though not in so acute and intractable a form. There is still cause for anxiety and need for constant vigilance. But he would be a pessimist indeed who denied that in many respects the economic situation has greatly improved, and that a gratifying degree of stability has been achieved and maintained in recent months. The resolute measures of a two-fold character launched by the Government, in the monetary field and in the sphere of control of commodities, have had a distinctly salutary effect on price tendencies. There has also been a marked psychological reaction, a growth of confidence in the determination and the ability of the Government to enforce its policy of control and to overcome the resistance of sectional interests which, in this country as elsewhere, place their own advantage above the common good. In spite of the limitations of our administrative machinery, the vast territories and multitudes with which we have to deal, and the constant opposition of those who hoped that we would fail, we have made definite and welcome progress towards our broad economic objectives. At times, when solemn warnings had failed to check unhealthy practices and tendencies, we have taken very drastic action and have been encouraged to find it endorsed by the mass of public opinion. We cannot, of course, emulate the results achieved in much more highly organised and closely integrated countries who can employ large qualified staffs to operate their controls and can count on the intelligent co-operation of a highly educated public. We can only claim that our efforts should be judged in the light of the experience of other countries similarly situated and at a comparable stage of development, who have, like us, been exposed to the turbulent forces released by the alternating fortunes of war.

3. I have one more general observation to make before I embark on the presentation of the budget figures. In a country which is so prone to rumour and panic, the operation of psychological factors is often more damaging than

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the objective forces at work. It is inevitable that the Government should bear this in mind when making any pronouncement. The outside critic fastens on particular aspects of the economic position and in his zeal to establish the validity of his own analysis may have scant regard to the practical effects, in a delicate and dangerous situation, of the vehement expression of his own views. The Government on the other hand cannot adopt this freedom and detachment in dealing with conditions which may be the cause of acute anxiety. At the risk of being charged with complacency it must strive to restore a sense of balance and to counteract the panic which may itself be the most dangerous element in the situation, and which, if unchecked, will frustrate all remedial action. This may seem obvious, but in the light of the events of the past year I make no apology for repeating it.

Financial Year 1942-43

4. I will now give briefly the results of the last financial year. In our Revised Estimates for 1942-43 we expected to end the year with a deficit of Rs. 94.66 crores. The actual deficit turned out to be Rs. 112.17 crores. Defence expenditure exceeded our estimates by about Rs. 25 crores, but on the civil side there was a saving of about Rs. 9 crores. Revenue was also Rs. 2 crores below expectations. Although income-tax collections improved by Rs. 8 crores, there was a reduction of Rs. 3 crores in receipts from war insurance and of Rs. 6 crores under Customs. Following on the decision of His Majesty's Government to bear the cost of the petrol and aviation spirit required for the expansion of India's air and land forces, there was a refund to the Defence Services of the duty initially collected under the ordinary customs procedure. This accounts for the decrease under customs revenue.

Financial Year 1943-44

5. Turning to the current year, I shall first deal with the revenue position. Total revenue is expected to reach Rs. 254.50 crores which is Rs. 35.50 crores more than our budget anticipations.

The general trend of customs has not been materially different from our budget anticipations, but here again a large amount of duty on imported petrol has to be deducted from the gross figure. We now estimate the net revenue under this head for the whole of the current year at Rs. 25.94 crores.

Under Central Excises our present calculations suggest an improvement of Rs. 68 lakhs over the Rs. 25.02 crores provided in the Budget Estimates. We expect a short-fall of Rs. 1½ crores under 'tobacco', which will, however, be counterbalanced by the increased collections anticipated under 'motor spirit' and 'matches'. Our Revised Estimates under 'sugar' provide for a revenue of Rs. 6.40 crores which includes Rs. 40 lakhs collected under the Sugar (Temporary Excise) Ordinance 1943. The disposal of this special revenue is under consideration.

6. Under Taxes on Income the budget allowed for a collection of Rs. 102 crores but with the speeding up of assessments we now expect the total revenue for the year to reach Rs. 138 crores. Excess Profits Tax will, according to our expectations, now yield Rs. 62.25 crores against Rs. 40 crores forecast in the budget. This, of course, excludes some of the collections under the Ordinance issued last summer which, for accounting purposes, are treated as deposits pending regular assessments. The divisible pool of income-tax has been taken at Rs. 44.04 crores and the share of the Provinces at Rs. 19.50 crores (including Rs. 1.98 crores on account of the previous year's arrears). The provincial share will thus be Rs. 7.40 crores more than the budget figure.

7. In salt revenue we expect a short-fall of Rs. 50 lakhs; there is an improvement of Rs. 4.94 crores under 'Currency and Mint' of which Rs. 4.26 crores is the increase in Government's share of the surplus profits of the Reserve Bank.

The revenue of the Posts and Telegraphs Department is expected to reach Rs. 25.82 crores, an improvement of Rs. 3.38 crores over the Budget Estimate. Traffic earnings have again exceeded expectations and we took over the telephone system at Calcutta with effect from the 1st April instead

of from the 1st September 1943 as anticipated in the budget. There is an increase of Rs. 2.36 crores in the expenditure which is estimated at Rs. 15.94 crores. The anticipated surplus of Rs. 9.88 crores will accrue to general revenues.

As the House has already heard, we are adopting for our Revised Estimates a contribution of Rs. 32.27 crores from Railways against Rs. 27.10 crores taken in the Budget.

Expenditure

8. *Defence Services.*—On the expenditure side I shall deal first with the defence services. The striking reverses inflicted on the Axis forces during the closing months of 1942 marked the turning of the tide of fortune in favour of the United Nations and the year 1943 witnessed an almost unbroken series of victories over all three Axis partners by land, sea and air. The invasion of Italy followed shortly by the unconditional surrender of her Government, the devastating blows dealt by the British and American air forces on Germany's production centres, the striking successes against the Japanese achieved by American and Australian forces of all arms in the South West Pacific, and above all the crushing defeats inflicted by our great Russian ally on the German invader whose armies are rapidly being flung out of Russia, these are all significant portents of the end that awaits our enemies.

This House is already aware and 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.

9. 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, assisted by naval, army and air commanders and staff officers drawn from both the British and American forces. 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 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.

10. 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 man-power 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 the extra demands for supplies and

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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.

11. 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 my last 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 shall explain shortly, not fall on India.

12. 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 of the scales of rations allowed for Indian troops. Reports from the medical authorities indicated that the previous scales were deficient in certain nutritive properties and that in the interests of the health of the troops some changes were desirable. More liberal and varied scales approximating to those allowed on field service were accordingly introduced with effect from the 1st July 1943 at an estimated annual cost of about Rs. 6 crores.

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.

18. 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 U. K., the U. S. A., Canada, Australia, etc.

The administrative problem of providing storage accommodation for these large accretions and 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 but 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 for operations overseas are rapidly going ahead.

14. The Royal Indian Navy 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 R. I. N. has been engaged in escort work and has also been employed in support of the army on the eastern front. Units of the R. I. N. have, moreover,

operated in British waters and participated in various operations in the Mediterranean including the invasion of Sicily.

15. 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.

16. Turning now to the Indian Air Force it is gratifying to note that the supply of modern aircraft is no longer a limiting factor in its expansion and satisfactory progress has been recorded 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 man-power comes forward to meet this requirement we shall not be able to build up the strong Indian Air Force which this country should possess.

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 measure 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 I. A. F. 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.

The fourth measure is the inauguration of the Indian Air Training Corps to give pre-entry training to prospective pilots at Universities. Eight Universities have started Indian Air Training Corps units under this scheme.

17. 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 fightingman 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.

The provision of amenities and arrangements for the soldier's welfare generally are secured by means of Government grants for expenditure on the purchase of literature, games requisites, radio sets, gramophones and so forth, as well as on the construction of recreational institutions, their furnishing and equipment. Concert parties for both British and Indian troops have been arranged, and recently there has been a very large expansion in this class of amenities. Grants are also made for the promotion of more serious mental and physical recreation, which are intended to be spent on Unit libraries, hobbies and handicraft equipment, the provision of external lecturers and visits to places of interest.

A good deal of attention is now being paid to 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. So far as British troops are concerned this is done mainly through the agency of the Soldiers, Sailors and Airmen's Families Association. The welfare of the Indian Services' families and ex-servicemen is safeguarded by the Soldiers Board organisation

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which has recently been greatly strengthened and extended with the help of grants from defence funds, and now covers all areas which have furnished considerable numbers of men to the Services. The Soldiers Boards are aided by the Civil Liaison Officers organisation which is staffed by military officers, and which is a link between the District Soldiers Boards and the Headquarters of the Services. These organisations investigate all complaints from absent soldiers, sailors and airmen and their families, look after their interests in law suits, ensure that they get their fair share of rations and necessities when there are shortages, and generally see to the well-being not only of the families but also of discharged or disabled service men.

18. The effect on India's finances of the developments in the defence field that have just been described have now to be considered. The allocation of defence expenditure between India and the U. K. continues to be governed by the terms and principles of the Financial Settlement, and developments in the war situation and the establishment of the S. E. A. 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 I shall term them) 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 therefore to be prepared with due regard to these 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.

As already indicated, so far as land forces are concerned, the present ceiling has not yet been exceeded and the revised estimates 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.

19. It will be recalled that in my last budget speech I explained that pending arrival at an understanding regarding the air force ceiling, provision had been 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 H. M. G., in the proportion of Rs. 8.98 crores to Rs. 1.84 crores.

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.

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 S. E. A. C. or to the utilisation of India as a base for large scale offensive operations against Japan.

20. The revised estimates of defence expenditure for the year 1943-44 amount to Rs. 262.64 crores and Rs. 88.80 crores under the Revenue and Capital heads respectively. The details are as follows:—

<i>Revenue portion</i>		In lakhs of rupees.
(1) Basic Normal Budget	. . . . .	30,77
(2) Effect of rise in prices	. . . . .	13,01
(3) India's War Measures	. . . . .	204,53
(4) Non-effective charges	. . . . .	8,33
Total	.	262,64
 <i>Capital portion</i> 		
(1) Air Force—Airfields	. . . . .	14,67
(2) Capital outlay on industrial expansion	. . . . .	6,00
(3) Reciprocal Aid—Airfields	. . . . .	10,85
(4) New Construction for the R. I. N.	. . . . .	2,58
(5) Capital outlay on Tele-communications scheme	. . . . .	4,20
Total	.	38,30

21. In the Revenue portion, the increase of Rs. 2.89 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 reemployment 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.

22. As regards the capital portion, the amount included in the Budget 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. 2.88 crores over budgetary anticipations, due mainly to 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.

Civil Estimates

23. Civil Expenditure in the current year has increased from Rs. 76.78 crores provided for in the Budget Estimates to Rs. 84.29 crores. Of this increase about Rs. 1 crore represents self-balancing items such as War Risks Insurance premia, Cotton Fund and the collections under the Sugar (Temporary

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Excise) Ordinance, 1943. The problem of evacuees from Burma, Malaya and other enemy-occupied territories continues to engage the attention of the Government. The scheme of financial assistance to evacuees and the families in India of British subjects detained in enemy-occupied territories has been continued during the year. The organisations set up in the Provinces have been further strengthened and efforts have been particularly directed to the finding of employment for the large number of refugees still unable to support themselves. These measures are estimated to cost Rs. 2.92 crores in the current year, an increase of about Rs. 2 crores over the budget provision.

24. In my last Budget speech I mentioned that a review of Civil Defence policy was being undertaken. The savings in the current year's budget did not, however, materialise and we had to incur certain unforeseen expenditure in the North-East. The revised figures for 1943-44 are consequently Rs. 49 lakhs in excess of the budget. In the light of the improved war situation a further review was made in November last. A. R. P. activities have now been closed down in about two-thirds of the 346 towns in which precautions of varying degree had been in force and the estimated expenditure for 1944-45 is nearly Rs. 1½ crores less than the revised figures for the current year.

25. In co-operation with the provinces and States, the Government of India have intensified their efforts in the prosecution of the 'Grow More Food' campaign, and have assisted schemes either by loan or grant to an extent of well over Rs. 2 crores. Such schemes include the distribution at concessional rates of improved seed and manures, irrigation projects promising quick returns and the provision of additional agricultural staff.

26. The Revised Estimates include provision for a grant up to Rs. 3 crores by way of Central assistance to Bengal in meeting the heavy expenditure the Province has been called upon to bear on famine relief. Without attempting to assign causes or to impinge on the strict constitutional allocation of financial responsibilities, we feel that the calamity which has overtaken large areas of the Presidency is so unique and of such magnitude as to justify a substantial contribution from Central resources both this year and next. The actual amount of the grant in each year will be a proportion of the booked expenditure under certain famine heads.

27. I would mention here that the Government have recently carefully considered 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.

There is one other matter in the field of provincial finance calling for comment. Some time ago the Sind Government advanced a proposal for setting-off the capitalised value of the subvention prescribed for them in the Schedule to the Distribution of Revenues Order in Council against the outstanding balance of the Lloyd Barrage debt, the remainder of the debt to be defrayed from Sind's free balances. Owing to the high level of agricultural prices, land values have risen very considerably and sales of land in the Barrage area have accelerated to a pitch which the original estimates could not possibly have foreseen. Further, it has been found possible to fix larger initial purchase instalments and to reduce the number and amount of subsequent instalments. This excess of present receipts over estimates will be reflected in a fall in receipts in the later years of the repayment scheme. It therefore seems desirable to recognise the change in conditions which has occurred since the original repayment scheme was devised, and the Government of India have supported the proposal to the Secretary of State, who is now taking the steps necessary

to secure an amendment to the Schedule to the Distribution of Revenues Order in Council. Under the arrangement proposed the subvention will be capitalised at 4½ per cent per annum, the rate of interest borne by the Barrage debt. It is a remarkable index of the financial prosperity of Sind that she is now in a position to repay the balance of some Rs. 5½ crores required to complete the transaction. The extinction of this large provincial liability, with all that it means for the people of Sind, will be a major example of the salutary process of debt repayment which is now going on, and which is a welcome compensation for some of our other economic ills.

28. I referred last year to the problems of the increased cost of living and its bearing on Government servants. With the approval of the Standing Finance Committee we last revised our scheme of dearness allowance in June 1943 when we further increased the rates and raised the limits of pay up to which the allowance is admissible. We are now considering a measure of further liberalisation. Under the existing scheme we expect to spend this year on this object, in respect of Central Government servants other than those paid for from Railway and Defence Estimates, almost Rs. 2½ crores. In accordance with our general anti-inflationary policy, which favours the provision of cheap supplies wherever practicable, we have readily extended to Central Government servants the benefits of schemes adopted, to secure this object, by the Governments of Assam, Bengal, Bihar and the U. P., and have made similar arrangements involving concessional prices for certain foodgrains to our employees in Delhi and Simla on pay not exceeding Rs. 300. These measures are likely to cost, this year, about Rs. 41 lakhs. We prefer, however, to tackle these problems by measures of wider applicability, which affect living conditions throughout the country.

29. The House is already familiar with the various control measures, both in the financial and the commodity field, which have been brought into operation since my last Budget. I would here refer to the activities of two Departments of Government which have been concerned mainly with the enforcement of commodity controls. It is clearly of no avail to attempt to stabilise the prices of the other elements which go to make up the essential minimum requirements of the people, if the most important element, namely food, is left free to exert an uncontrolled pressure on the general price structure. The acceptance of the principle of the statutory control of food prices as an integral part of the general policy designed to stabilise the economy of the country has, as Honourable Members are aware, been achieved only with the greatest difficulty. The experience of the past year has clearly shown that shortages of food, as of other commodities, are created as much by psychological as by physical factors and that the controlled distribution of food-grains at reasonable prices can only be secured by the planned movement of surpluses supported by urban rationing and price control. The Government of India have announced their intention of proceeding towards all-India statutory price control by way of provincial and regional controls as well as the extension of urban rationing all over India. Substantial progress has already been made towards both objects and we are determined that no local or sectional interests shall be allowed to obstruct the execution of a policy essential for the well-being of the country as a whole. To support this policy, further imports of food-grains from abroad have been arranged and these have been arriving regularly since the middle of October last.

Thus, as far as actual physical shortages of food are concerned, there has been much improvement and this should help to restore confidence, strengthened in the cities by the knowledge that, through rationing, everyone will receive a fair share of available supplies. At the same time it is the intention that the primary producer shall obtain a fair price for his crop and, what is more, a fair return in terms of the things which he has to buy. We may therefore hope that the factors which a year ago led to speculation and shortage will cease to operate and that with the growing realisation of the Government's determination and ability to control the situation, confidence will be fully restored.

30. I turn now to civil supplies other than food. In this sphere the measures which have been taken by the Department of Industries and Civil Supplies

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have resulted in a very considerable easing of the situation. In regard to cloth, the most urgent requirement of the country after food, agreement was secured in June 1943 with the cotton textile industry to a scheme which brought the whole of the production of this country under control. This was combined with a large measure of rationalisation through the manufacture of Standard Cloth to the extent, if necessary, of 2,000 million yards, and with measures calculated to bring hoarded stocks back into the market. Ceiling prices were fixed for all cloth going into the civil market, and steps taken to prevent its being hoarded. These measures were rendered effective by the co-operation of the industry, without which the task would have been immensely more difficult, and have not only secured a reduction in retail prices of the order of 40 per cent. but have reassured the consumer that he will not again be exposed to the merciless exploitation of last year. This feeling has been confirmed by the recent further reduction in retail prices. Another vital need of the country is an adequate supply of drugs and medicines at reasonable prices. Here the problem was different because India's production is inadequate to her requirements and she must rely largely upon imports. Increased supplies have been arranged and are already beginning to come in. Their distribution and price are regulated under the Drug Control Order of November 1943. These measures have already yielded valuable results and there is every reason to expect that the situation will continue to improve. Apart from the equitable control of the price and distribution of existing stocks and an increase in imports, Government have also endeavoured to secure wherever practicable the release on a more generous scale of indigenous supplies hitherto mainly reserved for defence requirements. Twenty five per cent. of the Indian output of woollen clothing for defence requirements is now being released for the civilian consumer, and steps are also being taken to make similar releases of capacity for the manufacture of footwear.

The measures I have described were intended to relieve the situation in respect of specific vital commodities, but there remained a thousand and one other consumer goods which were placed out of the reach of the ordinary man by the anti-social practices of profiteering and hoarding. To combat these it was necessary to frame an all-embracing enactment, designed generally to lower prices and to ensure that such supplies as are in the country are made freely available to the consumer. The results hitherto of the Hoarding and Profiteering Ordinance cannot be regarded as unsatisfactory, but its complete success must ultimately depend on the full co-operation of the general public.

31. In the activities of the Supply Department since my last Budget Speech, two important changes have occurred, in the setting up of an organisation for Aircraft and one for Salvage and Disposals. The latter has been established to effect a more rapid and widespread civil utilisation of military salvage as well as of other classes of salvage and of surplus stores, and to be the foundation of a post-war Disposals Organisation. The importance of utilising salvage as a means of husbanding our resources during the war needs no emphasis, and already large quantities of scrap and unserviceable stores are being economically absorbed. It will be even more important to ensure that the disposal of the vast quantities of surplus military stores which will be released at the end of the war is effected in an orderly manner.

The value of the orders placed by the Supply Department rose from Rs. 184 crores in 1941-42 to Rs. 256 crores in 1942-43 and was Rs. 129 crores in the first nine months of 1943-44. The increase during the last two and a half years does not, unfortunately, reflect simply the rise in the volume of supplies secured. The Supply Department has not escaped the fate of other consumers and has had to pay steadily rising prices for its purchases over this period. There has been some falling off in demands in certain lines, as I foretold last year, and although we cannot hope that the burden over the whole field will be greatly lightened in 1944, the demands for certain types of supply will continue to decrease gradually. This will afford an opportunity of diverting orders to other uses, and, together with the measures which are

being taken to control prices will lead, I hope, to a reduction in the cost of our supplies. It will at any rate make it easier to hold out for narrower margins of profit on war orders, which we have always wanted, but have not always been able to achieve.

32. This concludes my general review of the current year and it only remains for me to summarise the final position.

Our revised estimates for revenue show an improvement of Rs. 35.50 crores while there is a net increase of Rs. 87.34 crores under expenditure charged to revenue. We thus expect to close the current financial year with a revenue deficit of Rs. 92.48 crores.

Financial Year 1944-45

Revenue

33. I shall now deal with the financial year 1944-45. Our total revenue estimates amount to Rs. 284.97 crores as compared with Rs. 254.50 crores in the Revised Estimates for the current year. Anticipating that more shipping space for imports will be available next year we have placed the estimate under customs revenue at Rs. 27 crores against Rs. 25.94 crores in the current year. Under Central Excise Duties the estimates for next year allow for an improvement of Rs. 1.25 crores. Under 'tobacco', where the experience gained has enabled us to improve the efficiency of the administrative machinery, we expect to collect Rs. 10½ crores as compared with Rs. 9 crores in the current year.

Taking into account the trend of recent collections, we are providing for a total of Rs. 174 crores under Corporation Tax and Income-Tax. This includes an expected yield of Rs. 78 crores from E. P. T. The divisible pool of income-tax has been taken at Rs. 56.88 crores and the share available to Provinces will reach the high figure of Rs. 23.69 crores. Currency and mint receipts are placed at about the same level as the current year's revised estimate, while the contribution from Railways to general revenues has been taken at Rs. 31.37 crores. The revenue of the Posts and Telegraphs Department is expected to be Rs. 27.92 crores and expenditure Rs. 16.61 crores. Our estimates of expenditure for next year make provision for the transfer of an extra Rs. 1 crore to the Renewals Reserve Fund in view of the large outlay on the Tele-communications scheme. Even after this transfer, the surplus is estimated at Rs. 11.31 crores, the whole of which will accrue to general revenues.

War Risks Insurance premia which, as the House is aware, are taken to Revenue in the first instance, and later transferred to the relevant Funds, are expected to decrease by about Rs. 4 crores in the coming year owing to the lowering of the rate of premium.

Expenditure

34. *Defence Services*.—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.
(1) Basic Normal Budget	36.77
(2) Effect of rise in prices	15.05
(3) India's War Measures	215.58
(4) Non-effective charges	9.21
Total	276.61

Capital portion

(1) Air Force—Airfields	10.00
(2) Capital outlay on industrial expansion	2.00
(3) Reciprocal Aid—Airfields	5.20
(4) New Construction for the R. I. N.	1.60
(5) Capital outlay on Tele-communications scheme	5.80
Total	24.60

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35. In the revenue portion the increase of Rs. 2.04 crores 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 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.

36. 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 Tele-communications scheme is expected to be nearly completed during the coming year.

37. In my last budget speech 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.

(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.

38. 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. 850 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.

Civil Estimates

39. Civil expenditure shows an increase of about Rs. 2½ crores as compared with the revised estimates of the current year. As, however, there will be a reduction of about Rs. 4 crores in the amounts transferred to War Risks Insurance Funds consequent on the reduction in the rate of premium, the real increase is about Rs. 6½ crores. It accrues mainly under the head Interest, our liability for which increases with our increased borrowings and the success attending our savings campaigns. The full effect will begin to be felt next year and our interest payments are likely to increase by about Rs. 9 crores. Honourable Members will find full details of the variations under other items in the Explanatory Memorandum. I shall only mention here a few of the more important ones. We are including provision for a contribution up to Rs. 1½ crores towards Bengal's expenditure on famine relief. An extra sum of Rs. 50 lakhs is being provided for food production, and Rs. 68 lakhs for residential accommodation for ministerial staff in Delhi. There will be a reduction of about Rs. 1½ crores in Civil Defence.

40. In connection with industrial research we have made provision 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 has done valuable work within the limits of the funds allotted to it by Government, and the Government of India have now agreed to the Council drawing up plans for a co-ordinated 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 I have 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 three or four years after the cessation of hostilities. This step will, I am sure, be regarded as a practical expression of Government's resolve to foster the development of Indian industry and should at the same time serve as an incentive to private enterprise to come forward and support industrial research. A handsome beginning has already been made by the Tata Trust, whose enlightened liberality in matters of this kind I gladly take this opportunity to acknowledge; they have now increased their promised donation of Rs. 8.30 lakhs towards a National Chemical Laboratory by a further Rs. 11.70 lakhs towards the proposed National Metallurgical Laboratory, making Rs. 20 lakhs in all.

41. I can now summarise the position for the coming year. The expenditure detailed in the Civil Estimates comes to Rs. 86.57 crores and the provision for Defence Services has been placed at Rs. 276.61 crores. Our total expenditure estimates thus amount to Rs. 363.18 crores. The total revenue at the existing level of taxation is estimated at Rs. 284.97 crores. We are thus left with a prospective revenue deficit of Rs. 78.21 crores.

Ways and Means

42. I now come to what has always been called the ways and means position. That now imports a much larger and more complicated problem, nothing less than the release and absorption of general purchasing power throughout the country. Here as elsewhere great public attention has been focussed on it. We have all become conscious of the dangers of inflation, an awareness which has been heightened by the series of anti-inflationary measures which

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Government themselves have launched and which are in operation today, contributing in various ways and degrees to the desired result.

In every country at war the essential problem is the same. Goods and services are mobilised for the common end by a vast outpouring of Government money, and unless this is systematically reabsorbed on an adequate scale, it exercises an ever-increasing pressure on the reduced supplies available for civilian consumption. The effect on prices may be mitigated to some extent by controls and by rationing, but these must be accompanied by measures to reduce the abundance of purchasing power. In India the problem takes a special form, because rather more than half of the war expenditure in this country is incurred by H. M. G. and other Allied Governments. It is true that the expenditure debitable to the Indian Budget has been fully met by taxation and borrowing throughout the period of the war. In that sense there have been no uncovered budgetary deficits, though there have, of course, been revenue deficits which have added to the permanent debt. But what matters from the point of view of preventing inflation is that the re-absorption of purchasing power should be adequate to the total Government outlay, and our troubles have arisen from the fact that we have not at all times been able to raise sufficient rupees from the market to finance the recoverable war expenditure. The rupees issued to fill the gap have, of course, been backed by sterling assets, but since these are, during the continuance of war conditions, largely incapable of being converted into goods, the increase of free purchasing power in the country has had inflationary effects. It was for this reason that I emphasised last year the supreme importance, for the maintenance of our own economic health, of more and more borrowing. It cannot be repeated too often or too widely that in their own interest the people of a country at war must "save and lend". I shall have more to say later on this topic, but meanwhile it is of interest to review the course and extent of Government borrowing during the last year.

43. Thanks to sustained propaganda and special efforts throughout the country, and helped undoubtedly by the favourable turn in the progress of the war, we have succeeded in attracting, by various forms of public borrowing, a sum nearly three times as large as the total of the previous year. The subscriptions to the Defence Loans during the period beginning with the 1st February 1943 and ending with the 31st January 1944 amounted to a record figure of Rs. 115 crores. The third Defence Loan, 3 per cent. 1951-54, which was closed on the 30th June 1943 amounted to Rs. 55 crores, the amount subscribed from the 1st February to the 30th June being Rs. 23 crores. The total subscriptions to the fourth Defence Loan, 3 per cent. 1953-55, within a period of about seven months have been Rs. 81 crores, i.e., at the rate of over Rs. 11 crores a month. In May 1943, a special issue of 3 per cent. Defence Bonds 1946 for Rs. 20 crores was announced to assist in the funding of the liabilities created in connection with the acquisition of railway debentures. The total sales of this issue now aggregate Rs. 19 crores. A further special issue of 3 per cent. 1953-55 was made in July and fetched Rs. 15 crores. In October 1943, an issue of 3 per cent. Funding Loan 1956-58 for Rs. 25 crores was made of which Rs. 20 crores were taken up by subscription and the balance of Rs. 5 crores was subsequently sold through the Reserve Bank. Recently a further issue of Rs. 50 crores of this loan has been made and about Rs. 4½ crores have already been sold. It was announced in August 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 to the aggregate value of these two loans and would be sold through the Reserve Bank. There was considerable demand during the year for counterpart loans, mostly for 3½ per cent. Paper, the total amount invested in such issues during the period 1st February 1943 to 31st January 1944 being Rs. 98 crores against Rs. 36 crores for the corresponding period last year. 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 the consolidated debt due to the Centre. All these investments total Rs. 279 crores over the last 12 months which compares with Rs. 98 crores for the same period last year and an aggregate of Rs. 547 crores since the beginning of the war. This means that during the last twelve months we have been able to raise a little more than half the total amount 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, will be allotted, have been issued from the 15th of January. It is too early yet to attempt to estimate the probable yield of the issue.

44. In the important field of small savings, thanks in no small measure to the energetic co-operation of several provinces, which I gratefully acknowledge, there has been a welcome improvement. Whereas in 1941-42 and 1942-43 transactions in all forms of small savings resulted in net withdrawals by the public totalling Rs. 14 crores and Rs. 3½ crores respectively, they are now yielding net deposits at the rate of over Rs. 2½ crores a month and still show a marked upward trend. As from the 1st October the Post Office Ten-Year Defence Savings Certificates were replaced by Twelve-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. per annum. Much of the excess purchasing power today is passing into the hands of those who are unaccustomed to investing in Government loans and it is important that as much of this as possible should be drawn off. For this express purpose a National Savings Commissioner was appointed last autumn broadly to direct and control the small savings movement from the Centre. A scheme has now been evolved which provides for the employment of authorised agents on a commission basis whose function will be to collect money for investment from villagers, purchase certificates on their behalf and deliver them in the villages. The scheme also provides for the appointment of centrally paid staff to assist provincial authorities, the establishment of savings bureaux in all important towns and for extensive publicity and propaganda designed to promote saving and investment. An honorary lady organiser has also been engaged to enlist the help of women's organisations. The scheme has been accepted by most provinces and is now getting under weigh. With the co-operation and backing of Provincial Governments we may hope for substantial results.

While we may take comfort from the encouraging response to the efforts which were continued throughout the year to attract support to public loans, it must be recognised that we have still a long way to go to achieve our purpose. The aim of our borrowing is not merely to meet our budgetary deficits but also to bridge the inflationary gap and, as we shall see later, there is no reason why if the necessary concomitant steps are taken, we should not attain this target.

45. I have referred before to the variety of anti-inflationary measures that we have introduced. These are partly in the nature of physical controls and partly in the nature of direct monetary regulations. The object is, briefly, on the one hand to restrict spending on the limited supply of consumer goods by the public, and, on the other, to canalise the neutralised purchasing power into Government securities direct, or at least into activities such as the production of consumer goods which tend to alleviate the present scarcity or which will have a definite salutary effect in the immediate post war period. *Pari passu*, the importance of increasing production and supplies has been recognised, and wherever circumstances permit, supplies are increased, by import or production of suitable articles to satisfy irreducible public requirements.

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In the matter of physical controls, the Government is handicapped by difficulties the nature of which is not always realised. It is not merely the vast size of the country and the educational backwardness of the general population; but it is also a question of the sufficiency of experienced and capable personnel. Our main difficulties unquestionably arise from the lack of adequate personnel for operating the large variety of physical controls that are in operation, or that should be brought into operation. Nevertheless it is the Government's firm intention to take all possible steps to increase the effectiveness of the measures they have already adopted and to extend control in such further directions as the situation may from time to time demand.

46. In the monetary field we are faced with a difficulty of another kind, and that is, that a large proportion of the purchasing power arising out of Government disbursements finds its way into the hands of classes which are not used to investment in Government securities, and whose outlook can only be changed by sustained persuasive and educative effort. In rural areas, of course, stress is first laid on the desirability of repayment of debts to the Government, Co-operative Banks and private individuals and it is most gratifying to observe that a good deal of progress appears to have been made with the reduction of the burden of agricultural debt.

47. So far as the investment-minded public is concerned, namely, institutional investors and the urban public generally as well as the indigenous credit agencies in the rural areas, we have endeavoured to devise a range of securities to meet every variety of demand. The Government are convinced that the further step suggested in certain quarters, namely an enhancement of the rates of interest would be infructuous and is fraught with the risk of heavily mortgaging the future development of the country, apart from its immediate ill-effects on the balance sheets of institutional investors, who have for the last four years steadily supported the securities market. Nor can I see any advantage in the proposal that any other Allied Government should enter the field as a direct borrower, substituting its credit for that of the Indian Government. It has never been claimed, nor is it likely to prove true, that such a substitution would assist in persuading the rural investor to change his attitude towards investment in Government securities.

48. At this stage I may mention one other important anti-inflationary measure which has attracted public attention. I refer to the sales of gold which the Reserve Bank has been conducting for the last six months. These sales afford an age-old alternative to those who do not, for one reason or the other, wish to invest in Government securities, notwithstanding the advantages of the latter over investment in gold. As I said in reply to a question in this House earlier in the present session, the gold has been provided by H. M. G. and the Government of the U. S. A. from their own resources and the sale proceeds have been used by them towards their war expenditure in India. The import of this 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 less direct influence, has materially supplemented the other measures which we have been taking to counter inflation and check the rise in commodity prices.

49. Now I come to the other facet of the same problem, namely, the accumulation of sterling and the possibility of utilising this to the best advantage of the country, or what is sometimes called, the transfer problem. Our sterling credits continued to grow during the year on account of the recovery of war expenditure from H. M. G. and Allied Governments and the purchases from the market, resulting from the current trade surplus. Allowing for receipts and payments during the remaining month of the financial year, it is estimated that the holdings of the Reserve Bank as on the 31st March, 1944, will be approximately Rs. 950 crores.

The question of these large balances continues to engage Government's earnest attention. So far as concurrent utilisation is concerned, the possibilities of repatriation of our public debt have very nearly been exhausted as the year saw the final stage of the programme of repatriation. The 3½ per cent. Railway Debentures, for which notice of redemption was given last year, were redeemed on the 4th February, 1944, the amount paid being £8.8 millions. Stray parcels of the Government of India's sterling stock, both dated and undated, and of Railway Debentures bought and cancelled during the current financial year amounted to £3 millions rupee finance being provided by Government from their balances. Including dated and undated Government of India Stocks, Railway Annuities, Railway Debentures, purchase of railways and one-fourth of the Chatfield debt, the total amount of our sterling obligations redeemed to date is about £850 millions. The sterling liabilities now outstanding consist of the comparatively small amount of £11½ millions of Government of India Stock and Railway Debentures. These amounts represent holdings 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.

50. In my budget speech last year I said that while it was difficult to state with precision to what extent the funding of the floating debt for the purposes of repatriation had been achieved, the broad position was that Rs. 160 crores could be regarded as being in the form of Central Bank finance. I am glad to be able to inform the House that, mainly as a result of the operations already mentioned, this excess has now been reduced to only Rs. 20 crores, which is roughly equivalent to the amount by which the rupee securities held by the Reserve Bank in its Issue Department exceed the corresponding figure at the outbreak of the war. As a further measure of residual repatriation, arrangements have been made for the acquisition of the Madras & Southern Mahratta Railway and the South Indian Railway on the 1st April, 1944, *i.e.*, 21 months in advance of the date when we would be entitled to do so under the agreements with the Railway Companies. These operations will absorb a sum of approximately £6 millions.

51. As the House is aware, discussions have been taking place in Washington from time to time in regard to the British and American and other plans that have been put forward for international monetary regulation in the post-war period. These discussions have so far been at the technical level without implying any commitments on the part of the Governments of the countries represented. India has not so far been directly represented in these conversations though we have been kept fully informed of their progress by our Agent-General in America and by H. M. G. The Government have invited opinions in this country on the proposals and the subject has recently been discussed in the General Policy Committee for Reconstruction. After an opportunity has been afforded for discussion in the Legislature, 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 will be represented. It is patent that one of the problems that will confront the world in the post-war period will be the orderly liquidation of balances acquired by various countries during the war and in considering whether India should lend her support to any scheme that may be put forward for international monetary regulation, one of the major considerations will naturally be the extent to which such a scheme assists in providing a solution for problems of this character.

52. This is an issue the outcome of which it is not possible to prejudge at the present stage. Yet it is a matter of peculiar interest to this country, faced as it will be after the war with the urgent necessity of raising its extremely low standard of living. For this purpose plans for reconstruction and development, including a forward policy of industrialisation, are now being laid. The early implementation of these plans will, however, be dependent to no small extent on external finance. This aspect of India's post-war problem was discussed with H. M. G. in connection with the acceptance by India of the

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general principle of the extension of reciprocal aid to raw materials and food-stuffs. H. M. G. 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. The House will be gratified to know that H. M. G. have agreed in this connection, and 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 our current dollar requirements which are met from the Empire dollar 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.

POST-WAR PLANNING

53. This is perhaps the most suitable stage for me to say a few words on the financial aspect of post-war planning. I have been dealing with magnitudes large in the perspective of Indian finance, and this in itself seems to provide a bridge between the limitations of the past and the larger future. Indian public opinion, in striving to outline that future, is also thinking in figures of an order which would have frightened an older generation. Let me say at once that I fully recognise that if any effective development is to take place, large amounts are bound to be involved, but this is equally true of war. But perhaps closest resemblance between war-finance and reconstruction finance is this: they both involve, and necessarily involve, a continuously high level of taxation, as well as of borrowing, if the objective is to be attained. It is true that if the investment is wisely carried out, we may expect from development expenditure both an increase in the real income of society and an increase in the taxable capacity of the country, but we cannot overlook the fact that some forms of investment will never be able to pay for themselves in the literal sense of being financially self-supporting. This is obviously true of two forms of effort which must inevitably bulk large; public health expenditure and expenditure on education. In the phase of expansion, very heavy capital outlay will be involved, and once the desired level has been reached, there will be a heavy recurrent charge, a large proportion of which will inevitably fall upon the general budget of the Centre and the Provinces. It is indisputable that the nation will greatly benefit by such capital and recurrent expenditure; but it is equally beyond doubt that the annual recurrent cost cannot be met out of taxation levied from the direct beneficiaries themselves. A heavy residual budgetary charge will remain.

54. That brings me to another point. We may hope, and legitimately hope, that the provision of capital equipment from overseas will be powerfully assisted by our possession of large sterling balances. We must not, however, ignore the difficulties which are likely to arise, in at least the first post-war decade, from competing claims for capital equipment and from transfer difficulties associated with the balance-of-payments position of the United Kingdom. Again, to utilise the whole of these balances and at the same time the whole increment of foreign funds accruing from current exports, would leave India with a wholly fiduciary currency. A note-issue with nothing behind it except the authority of the Government is exposed to all the winds that blow, and some of them might be very adverse indeed—a failure of the monsoon, or a world-depression or a renewed threat of war might easily lead to a flight from the currency or to a demand for foreign exchange which it would be very difficult to satisfy. Some external reserves seem to me to be absolutely indispensable, and, therefore, it is unrealistic to assume that foreign balances, actual or prospective, could in any circumstances be fully available for reconstruction finance.

55. I have no wish to enter into controversy regarding certain aspects of the plan which a number of prominent businessmen have recently put out in the desire to focus discussion and to provide a nucleus for constructive thinking. I am, however, bound to confess to a feeling of misgiving regarding the extent to which the financing of post-war development could be based on "created"

money'. I realise fully that an expansion of the currency in peace time, during a period of rapid intensification of production, is a different thing from an expansion accompanying the enforced scarcities of war-time. But the difference between the initial effects may well be much less than has been suggested. In so far as development projects are concerned with capital investment, a time-gap will necessarily intervene between initial investment and final completion, during which time no addition to the national income in real terms will take place to offset the inflationary effect, and by the end of that time prices will already have risen. Again, if development projects such as education and public health are to be financed in this way, the effect will be still more marked. For although improved health and higher standards of education are important elements of national well-being, their influence on national production and on national income is of a more remote and indirect nature, whilst the influence on money-incomes and on demand created as a result of inflation will be direct. I must say in justice to the authors of this proposal that they are aware of the dangers involved and propose to counter these effects by drastic over-all controls imposed by a strong Central Government.

This would mean that the public, which has had perforce to submit to control in war time when the fact of shortage was inescapable, should accept the continuance of controls prolonged over a far longer period after peace returns. I am far from suggesting that the results to be achieved would not justify this degree of sacrifice. But could so comprehensive and drastic a control be effectively administered in the conditions of this country, with the internal inflationary pressure rising rapidly with each succeeding year? It would surely not be wise to force the pace of post-war development at the cost of imposing such severe limits on the standard of living during the development period, at the cost of further accentuating the disparities of wealth which inflation inevitably entails, or at the risk of a financial and economic collapse before the objective itself could be reached.

56. It is my firm conviction that the first pre-requisite 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 may perhaps sound pedestrian, but in the light of our experience of war-time finance there is no reason, given the will to find money for peace on the scale on which it has been found for war, why resources should not be forthcoming to an extent which could not possibly have been envisaged in pre-war days. Many Provinces have already started exploiting their revenue resources and building up reconstruction funds, as a result of which they will embark on the post-war period with an improved revenue position and a useful cash balance. This is a hopeful start, though there is still considerable room for extension; but the magnitude of the problem is so great that the Provinces will undoubtedly need all the financial assistance that the Centre may be in a position to give. I have recently brought under review 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 review indicates that, on the assumptions of a reasonably speedy rate of demobilisation after the conclusion of hostilities, the maintenance by concerted international effort of full production and employment, and a determination on the part of the Government of the day to utilise to the full the taxable capacity of the country, it might well be that, after one or two deficit years, revenue surpluses would emerge rising in the fourth or fifth year to the order of Rs. 100 crores per annum. With all-out borrowing continued in accordance with the technique developed during the war, it is by no means fantastic to visualise total resources for the purposes of reconstruction during the first effective quinquennium approximating to the Rs. 1,000 crores level; and this excludes any estimate of direct private investment. Beyond that I would prefer at this moment not to attempt to dip into the future, although it would be reasonable to assume that estimates for the subsequent five-year periods could be related to the actual results of the first quinquennium in a sort of geometric progression.

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57. The immediate task of investigation and planning is already well in hand, and some of the official reports and data which are now under the consideration of Government will shortly be released for the information of the public. These constitute the essential raw materials of any practicable plan of development, but equally important is the preparation of a sure foundation of sound finance capable of carrying with safety the edifice to be erected upon it. This edifice can itself be made both stronger and larger if the individual schemes of which it is composed are so designed as to be in their revenue aspect as remunerative as possible, and if high priority is accorded to such of them as can contribute directly to an increase in material wealth and prosperity and thereby reinforce the public revenues.

NEW PROPOSALS

58. Whether we approach the matter from the viewpoint of building the new India of our hopes, or from the viewpoint of mitigating the hardships and inequity of the immediate present, it is clearly our paramount duty to deal first with the menace of inflation. That danger cannot be said to be averted, nor can the upward movement of prices be regarded as securely arrested, so long as the total of our taxation and borrowing falls short of the total of rupee outgoings. The problem of closing this gap, or reducing it to innocuous proportions, has therefore to be tackled in a determined and systematic way. The Government's plan has three broad aspects. In the first place, we must control and stabilise the net over-all demand placed upon Indian resources, compensating as far as possible for any inevitable increases by imports of food, bullion or other capital and consumer goods. In the second place, we must step up in every way the rate of rupee incomings until it equals the rate of rupee outgoings. In the third place, we must maintain and extend our price controls. These three methods of attack must all be pursued concurrently, and experience has already shown that they are capable of yielding the desired results. Our calculations show that during the current year the gap between total incomings and total outgoings of rupees was of the order of Rs. 250 crores. In the light of the remedial measures which we have already taken, and assuming the continued operation of the favourable factors now at work, we hope for a substantial narrowing of the gap in the coming year. The proposals which I have now to make are designed virtually to close the gap, to check the insidious process which is capable of causing such unlimited misery to the people. It is an object worthy of sacrifice, and indeed without sacrifice greater hardships cannot be avoided.

59. 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 is being put 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 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 2A—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.

60. As regards Excess Profits Tax, our proposals make no change in the rate of tax, which remains at 66½ 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.

61. In regard to rates of Income-tax, we 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 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 business 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.

62. In regard to customs duties, we propose 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. I need hardly 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.

63. In the field of central excises there are important changes. We 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.

64. The three new items which we propose to include in the Central Excise Tariff are betelnuts, coffee and tea and the rate of duty proposed in each case is 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

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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 coffee and tea 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.

65. The total estimated yield of our ordinary 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 will, we have every hope, firmly check the inflationary trend and 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.

66. 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. We have therefore 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 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 these 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.

67. That brings me to the end of my story. The last five years have witnessed changes of a significance and magnitude which few indeed could have ventured to foretell, as India has been caught up ever more irresistibly in the rapid stream of world events. Who can doubt that she is destined to play a momentous part in the years ahead, when the last great effort has been crowned with victory, and men turn again to the fruitful tasks of peace?

THE INDIAN FINANCE BILL.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, I move for leave to introduce a Bill to give effect to the financial proposals of the Central Government for the year beginning on the 1st day of April, 1944.

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

"That leave be granted to introduce a Bill to give effect to the financial proposals of the Central Government for the year beginning on the 1st day of April, 1944."

The motion was adopted.

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

THE INDIAN INCOME-TAX (AMENDMENT) BILL.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, I move for leave to introduce a Bill further to amend the Indian Income-tax Act, 1922.

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

"That leave be granted to introduce a Bill further to amend the Indian Income-tax Act, 1922."

The motion was adopted.

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

* The Assembly then adjourned till Eleven of the Clock on Wednesday, the 1st March, 1944.