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THE LEGISLATIVE ASSEMBLY DEBATES

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OF THE

FIFTH LEGISLATIVE ASSEMBLY,

1943



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LEGISLATIVE ASSEMBLY.

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LEGISLATIVE ASSEMBLY

Saturday, 27th February, 1943.

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.

MEMBER SWORN:

Sir Gurunath Venkatesh Bewoor, C.I.E., M.L.A. (Secretary, Posts and Air Department).

THE BUDGET FOR 1943-44.

The Honourable Sir Jeremy Raisman (Finance Member): Since I last presented a Budget to the House, it has become patent to all that on the military side the war has entered on a new phase, the prelude, let us hope, to a decisive victory for the United Nations in a no longer distant future. The enemy is everywhere on the defensive. Though the destruction of the armed forces of the Axis Powers is the primary objective, we may also welcome, from the economic point of view, the cessation of the territorial acquisitions of the enemy, which have enabled him, by enslaving the local populations and by drawing upon local resources of raw materials and foodstuffs, to prolong the conflict in the economic as well as in the military sense.

2. The heartening position in which the United Nations now find themselves has not been achieved without an immense strain upon the economic apparatus of the entire world. We all rejoice with the Russian people as the enemy is flung out of one position after another, but from the economic aspect there is a call for additional plant, additional man-power and additional shipping to produce and transport the additional supplies which alone render such victories possible. The New Year message to Congress which the President of the United States delivered a few weeks ago affords impressive evidence of the stupendous war-potential of the American people; it also shows that, except to the extent that hitherto unemployed resources can be utilised for the purpose, every increase in the armed power of America accentuates the strain upon productive power. Not so long ago, there was reason to fear that the dislocation of world trade caused by the war, by the shortage of shipping and the closure of markets, would force many countries of the world to grapple with the problem of surpluses. If, as regards one or two commodities, this fear is not entirely without foundation, the broad picture which confronts us today is one of omnipresent and cumulative shortage: of man-power, of materials, of equipment and of shipping. Moreover, in every part of the world this fact of shortage is being brought home to the common man in the most striking and positive way. Owing to shortages of labour, longer working hours and higher rates of wages, the money incomes of very large numbers of people have risen sharply and yet they find that these incomes cannot be freely spent: that everywhere the State is stepping in in order to control and limit consumption and thus to make the little that is available go as far as it possibly can.

3. We must, I feel, view the Indian economic situation in the light of these general world conditions if we are to pass a valid judgment upon what has been happening in this country in the last twelve months. As in the military, so in the economic sense, the war has come closer to India. In other words, economic conditions in India have become more closely assimilated to those prevailing in the outside world than was the case a year or more ago and, because the pace of assimilation has become accentuated, we are more conscious of the process of adaptation. Looking back on the first two years of the war,

[Sir Jeremy Ruisman.]

we can now see more clearly than was then possible how largely the favourable effects on India's economy outweighed the unfavourable ones. The war was far from our shores and yet it exerted a marked expansionist influence on production, employment and trade without any very serious disadvantages accompanying the transition from peace to war. It is true that we lost some overseas markets, but we gained others. Our external resources mounted rapidly and the repayment of our external debt began, a process which will have a permanent effect upon India's international situation. Employment improved and higher earnings compensated the rise of agricultural prices, which in its turn improved the buying power of the ryot, and the mounting demand was met by a fuller utilisation of the margin of productive power still available. It would be idle to pretend that in the last twelve months the unfavourable factors have not gained relatively to the favourable. Occupation by the enemy of neighbouring territory has robbed us of part of our food supplies and increased the strain on communications. The war-demands are eating deeply into our manufacturing capacity, expanded though that has been. The drastic cutting off of imports has reduced our supplies and helped the profiteer to exploit the consumer. At a time when our food supplies were reduced by the cutting off of imports we have had to come to the assistance of Ceylon. Civil disturbances have added to difficulties of transport and at the same time have encouraged individuals to hold stocks of food on a larger scale than usual. Prices have risen and, as in other parts of the world, an increased money income is being expended on a smaller stream of immediately available goods.

4. But, I repeat, the increased difficulties which we are now called upon to face are not in any way unique, and no good purpose can possibly be served by magnifying them or by failing to recognize that there are also favourable factors in the situation. Even if rising agricultural prices have done nothing else, they have obviously diminished the real burden of agricultural indebtedness, a source to which so many of the major evils which beset the Indian cultivator have so often been traced. The industrial worker is enjoying full employment at rising wages and if he can be induced to exercise sufficient self-control and abstain from the immediate purchase of superfluities, he can build up a useful fund against the contingencies of the future. Our external debt is on the point of disappearance and we have large funds in hand with which we can finance the improvement of our industrial equipment in the future. All in all, when we compare our economic position with that of the other belligerent nations, we can face the difficulties of the present, not with complacency, for which there is certainly no room, but with the conviction that our problems are no worse and are indeed in many respects, easier than those of other peoples in a world at war.

FINANCIAL YEAR 1941-42.

5. I will now touch briefly, according to custom, on the results of the last financial year 1941-42. In our revised estimates we expected to end the year with a deficit of Rs. 17,27 lakhs. The actual deficit turned out to be only Rs. 12,69 lakhs. Revenue improved by no less than Rs. 4,95 lakhs, of which Rs. 1,89 lakhs are accounted for by Customs, Rs. 1,05 lakhs by the larger contribution made by the Railways to General revenues, and Rs. 1,48 lakhs by Central Excise duties and Income-tax. Defence expenditure increased by Rs. 1,48 lakhs which was offset in a large measure by savings aggregating Rs. 1,11 lakhs in the total Civil expenditure.

FINANCIAL YEAR 1942-43.

6. I turn now to the current year 1942-43, and will deal first with the revenue aspect.

Last February, in laying before the House our revenue estimates for this current year, I warned Honourable Members that there was likely to be a further marked drop in the scale of our imports, owing mainly to the war, in

the Pacific. Customs receipts during the first ten months of the financial year show a deterioration of over Rs. 6½ crores as compared with those of the corresponding months of the previous year. We now anticipate that for the whole year 1942-43 the net Customs receipts will amount to Rs. 31.00 crores, against the Budget estimate of Rs. 35.35 crores, or a shortfall of 4.35 crores. Salt revenue is estimated to amount to Rs. 10.50 crores.

7. Collections of Income-tax and Corporation Tax have continued to increase. Receipts on account of ordinary Income-tax including central surcharge are expected to yield Rs. 7 crores more than our Budget estimates. With increasing experience gained in the administration of the Excess Profits Tax Act, the work of assessment has steadily progressed and our total collections under this head, including advance payments, are expected to reach Rs. 26 crores, that is Rs. 7 crores more than the Budget estimate. The provincial share of the divisible pool of Income-tax will now be approximately Rs. 10.55 crores as against Rs. 8.37 crores originally provided for in the budget.

8. The large increase under Currency and Mint calls for some explanation. Our Budget estimate of Rs. 3.26 lakhs included Rs. 2.47 lakhs as surplus profits of the Reserve Bank and Rs. 45 lakhs on account of profits from the circulation of bronze and nickel coin. Our share of the Reserve Bank's profits this year amounted, however, to Rs. 3.24 lakhs. As regards the profits from small coin, Hon'ble Members will recall the decision, announced in my speech introducing the Budget for 1941-42, to credit to revenue from that year onwards an average figure of Rs. 45 lakhs, any balance in excess being credited to a suspense account. The object was to even out the receipts over a series of years and eliminate from the revenue budget the disturbing effects of large returns of coin in any year. We did not then anticipate such large profits as have actually accrued from the unprecedented demand for small coin. On our present reckoning, Rs. 1.77 lakhs of profits have accrued in 1941-42 and we anticipate profits of Rs. 4.63 lakhs in the current year and about Rs. 4.03 lakhs next year. With the large expansion in our minting programme, expenditure has gone up from Rs. 78 lakhs in 1941-42 to Rs. 1.30 lakhs this year and is expected to be Rs. .92 lakhs next year. In these circumstances we have decided to transfer from the suspense account an amount which will provide a net sum of Rs. 45 lakhs a year, over and above the actual mint expenditure.

Honourable Members already know from the Railway Estimates recently submitted to them that the Railway surplus in the current year is expected to be better than the Budget estimates but that the contribution to General Revenues has been maintained at the original budget figure of Rs. 20.13 lakhs.

9. Allowing for an expenditure of about Rs. 60 lakhs in the current year on account of the grant of dearness allowances to certain classes of employees, the working of the Posts and Telegraphs Department is now expected to add to our revenue Rs. 1.35 lakhs more than was taken in the budget. After paying an outright contribution of Rs. 2.00 lakhs to the General Revenues, the Posts and Telegraphs Department will have at the close of the year an accumulated surplus of Rs. 7.72 lakhs out of which a lump sum contribution of Rs. 1.50 lakhs will be made to the Renewals Reserve Fund which needs replenishment in view of the heavy programme of capital expenditure.

Finally, there is an increase of Rs. 15.01 lakhs in the receipts of premia connected with the War Risks Insurance Scheme. This is in addition to the amount of Rs. 3.24 lakhs which we had provided in the budget. For accounting reasons these sums are included both in the revenue and the expenditure estimates as they are for the present being paid into a separate fund.

Expenditure.

10. *Defence Services.*—Turning to the expenditure side of the current year, I deal first with the defence services.

It is hardly necessary for me to recapitulate the sequence of military developments which in the course of this year brought the imminent danger of

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invasion to the eastern frontier of India, while at the same time a more distant menace was looming up from the West as the German armies penetrated into the Caucasus and advanced to within a short distance of Alexandria. Despite the signal failure of a Japanese air attack on Ceylon and the severe damage inflicted by Allied naval and air forces in the Pacific on the Japanese navy and merchant shipping, the position of the Allied cause at the end of July last presented to many observers a picture of almost unrelieved gloom, which in India was rendered even darker by a deplorable outburst of civil disturbances. Under the surface, however, tremendous long range forces working in favour of the Allies were gathering momentum, and dramatically revealed themselves when the Axis forces were hurled out of Egypt and Libya, while the Allied landing further west in North Africa, probably the greatest feat in the history of combined operations, created the vastly different situation in that continent which we see today. On the Russian front our Allies are continuing the magnificent series of brilliant victories which has so completely dispelled the myth of German invincibility. Meanwhile in the Eastern theatre the Japanese have recently suffered serious reverses in New Guinea and the Solomons, while an advance into Burma has been made by the forces of the Indian command.

11. At the beginning of 1942-43 it had become clear that further substantial increases in all three arms of the defence services—particularly the Air arm—beyond those envisaged in the expansion measures which I mentioned in my last budget speech, were called for to protect India against the fresh dangers to which the course of the war had exposed her. Impending movements of forces from India overseas were therefore cancelled and additional forces had to be brought into the country to meet the imminent threats of attacks by sea and air on her shipping and ports, and of invasion by land.

On the army side the processes of raising, training and equipping new units and formations in India were intensified. Recruiting activities were extended and by the middle of the year we were raising recruits at the rate of about 70,000 per month, many being drawn from Madras and other new recruiting grounds. Meanwhile training establishments increased and multiplied, and special attention has been devoted to the instruction and training of officers and men required for the Indian Armoured Corps, Signals, and M. T. units. I have referred elsewhere to the scheme for a vast extension of India's internal telephone and telegraph systems. The further improvement of the country's communication systems has been dictated largely by the vital needs of the defence services and a large proportion of the capital cost involved will be charged to the defence estimates. It is anticipated however that some of the equipment and stores required for this scheme will be obtained from the U. S. A. on Lease-Lend terms.

12. For the equipment of the additional troops, India is obtaining her full share of the greatly increased production of the United Nations and the position in this respect has improved though shipping and inland transportation difficulties naturally tend to hold up supplies and delay distribution. The provision of accommodation for housing the additional troops and for the storage of the equipment, stores and workshops required for the great expansion of the army in India, presented a most formidable problem to the engineering authorities in this country and has thrown a very severe strain on the country's resources in building materials and labour. The withdrawal of the Allied forces from Burma into India at the beginning of the year, involving as it did the tremendous task of opening up communications by the land route between the two countries, had already made heavy demands on those resources which throughout the year were further taxed to the utmost by the massive requirements of the Air Forces. To meet these demands, which were far beyond the capacity of the Military Engineering Services, the assistance of the Central and Provincial Public Works Departments, and in some cases of the Works-Services

of Indian States, was enlisted and in addition Civil Pioneer Battalions were raised to provide disciplined labour. In Eastern India large numbers of labourers engaged by the Tea Association and Indian States have been employed on defence works of various kinds.

As a result of these combined efforts, the land forces in India during the year 1943-44 will have reached a stage at which they can be regarded as reasonably adequate to meet all the demands likely to be made upon them for the defence of India. I shall not attempt to prophesy what may happen during that year but in the light of recent events we may hope that the role of some at least of these troops, which has hitherto been that of defence against threats of invasion, will be exchanged for offensive action alongside the other Allied powers.

13. During the course of the past year it became necessary to review the adequacy of the pay of the Indian soldier. Although he is paid, clothed and housed at the expense of the State and thereby largely protected from the effects of the rise in prices, he has to make an allotment from his pay for the support of his family who are not so protected. To afford him relief, an increase in the basic pay, proficiency pay and messing allowance of all Indian other ranks and all non-combatants was sanctioned in October last, the details of which have recently been given to the House. It was felt however that in the present conditions it was less important to increase the amount of money at the soldier's immediate disposal than to improve his position at the time of demobilisation when his need would probably be the greatest. The deferred pay of all ranks was accordingly also increased, to be accumulated in the soldier's account but not to be payable until his demobilisation. The Government at the same time decided to set aside annually, sums equivalent to this increase in deferred pay, the amounts being paid into a fund to be used for financing post-war schemes designed to promote the welfare of demobilised soldiers and followers.

14. Turning now to the navy, the year witnessed considerable progress with the expansion programme of the Royal Indian Navy and a very substantial number of war vessels completed since the outbreak of war are now in commission. An increasing number of these vessels is engaged in the protection of convoys and Honourable Members will not need to be reminded of the recent heroic exploits of one of these ships which resulted in the destruction of a very much larger and better armed enemy vessel. In addition to new construction undertaken specifically for the Royal Indian Navy a number of motorcraft constructed in India on Admiralty account have now been handed over to the Royal Indian Navy, and will form a valuable addition to our port defence flotillas. The strength of officers and ratings has increased by approximately 50 per cent. during the past year. Much progress has also been made in the improvement of facilities at the various naval bases and several new bases are being constructed. A Torpedo School has been opened for the training of officers and ratings in the use of this weapon. The existing Signal School has been expanded and a new and larger Anti-Submarine School constructed. A School now exists too for the training of officers and ratings in the handling of Landing Assault Craft.

15. But it is the development of the Air Forces in India during the year under review that presents the most impressive picture, by reason not only of its magnitude but also of its immense importance and proved value as a factor in India's defence system. For obvious reasons I cannot give the House anything beyond a very rough indication of what has been achieved in this direction but the respect with which our air defences today are treated by the Japanese Air Forces and the failure of their airmen to inflict any appreciable damage on targets in India may be allowed to speak for themselves.

A year ago our programme of expansion of the Air Forces in India comprised first the building up as rapidly as possible of an Indian Air Force, and secondly the provisions of air fields and other facilities necessary for the operation and maintenance of an air force such as in certain circumstances it might be necessary to employ in India to protect her against external aggression. It had from

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the first been realised that should war on any considerable scale come to India's actual frontiers our air forces would have to be supplemented by reinforcing Royal Air Force squadrons until such time as the expansion of the Indian Air Force would enable India to be self-supporting in this arm of the service.

The review undertaken at the beginning of the year in the light of the situation then existing and of experience gained in other theatres of war showed, first that a very much larger number of reinforcing squadrons would be required than had previously been envisaged, and secondly that ground and other facilities on a vast scale were imperatively necessary to give the air forces in India the mobility and flexibility to meet attacks from any likely quarter. Accordingly a comprehensive programme of aerodrome construction was drawn up, the carrying out of which as a matter of the highest possible urgency has absorbed a large proportion of the country's resources of labour and materials during the year. To give some idea of the effort involved I may mention that nearly one million men were employed often by day and night for several months on the task.

Meanwhile a steady stream of aircraft, with their connected equipment and stores, and of trained personnel to operate and maintain them has been pouring into India, where squadrons of various types equipped with the most modern aircraft are rapidly being formed and allotted roles in the defence plan. At the same time the work of raising and training personnel for the expansion of the Indian Air Force is being vigorously pursued with satisfactory results and it is anticipated that early in 1943-44 this force will consist of seven squadrons. A number have already been re-equipped with aircraft of the latest types and are being trained in their use so as to be ready for active operations. This development of the Indian Air Force involves the training of a large number of Indians in various crafts and trades and is thus bringing into being a body of highly skilled artisans, whose existence, apart from their value in the present emergency, is likely to be of great permanent advantage to the country as a whole.

An up-to-date warning system based on the experience gained in Britain has been established in India and has already demonstrated its effectiveness. The anti-aircraft defences of the country have also been enormously strengthened and improved.

A rapidly expanding air force makes heavy demands for repair and maintenance facilities and to assist in meeting these demands it has been necessary to curtail very greatly the construction programme of the Hindustan Aircraft Company and to concentrate its activities on servicing, repair and overhaul. The Company will specialise in American types and its facilities are being utilised to a growing extent by the United States Army Air Corps. In addition a Civil Repair Organisation is being built up to supplement the capacity available in Government workshops and depots for repairing and maintaining aircraft of all kinds. As a result of these intensive efforts the time is rapidly approaching when the air defences of India will be capable of meeting any threats likely to arise and indeed of increasing the damage that they have for some time past been inflicting upon the enemy in Burma and elsewhere; for it must be remembered that in air-warfare the power to carry out deterrent offensives is even more valuable and constitutes a more effective means of defence than passive resistance to air attack.

16. It is now necessary to consider the effect of these activities on our defence expenditure. Security in these disturbed times is only to be purchased at a heavy price, and the House will no doubt be prepared for a bill of unusual magnitude. Before giving the actual figures of expenditure however I must deal at some length with certain major problems that have arisen in connection with the allocation of the cost of some of these measures. For this purpose it will be desirable to recapitulate the arrangements on which the apportionment of India's defence expenditure between British and Indian revenues is based.

The House will recall that the Financial Settlement between His Majesty's Government and the Government of India was negotiated in November 1939. Under it India is to pay:

- (a) her pre-war normal budget for effective charges of Rs. 36·77 crores;
- (b) a sum in adjustment of the normal budget for rises in prices;
- (c) the cost of "Indian War measures", that is, such war measures as can be regarded as purely Indian liabilities by reason of their having been undertaken by India in her own interests;
- (d) a contribution towards the additional costs of her external defence.

India has paid a lump sum of Rs. 1 crore on this account.

His Majesty's Government is to pay for the remainder of all general defence and supply expenditure incurred by India, subject to separate post-war negotiations concerning the liability for surplus war stores in India acquired in the common interest. Non-effective charges were to be dealt with separately.

Expenditure on Supply in its widest sense—the production of guns, ammunition, armoured cars, clothing and warlike stores of every description (some 60,000 items) was so closely related to direct defence expenditure that it also was covered by the Financial Settlement. The arrangement was, broadly speaking, the same: India pays for whatever she takes from Indian production for Indian war measures, and for her share of joint war measures, including storage charges, and His Majesty's Government pays for, and owns, all the remaining stores produced, together with practically all the capital assets created for the purpose of expanding production and storage.

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

In actual practice the majority of war measures in India are not, in the nature of things, taken solely in India's interests, nor solely in the interests of His Majesty's Government, but in the joint interests of both. Such measures have conventionally become known as joint war measures. Although joint war measures have been referred to and described in the Appropriation Accounts for the years 1939-40, 1940-41 and 1941-42 and are well known to the Public Accounts Committee of this House, I find that there has been some misunderstanding as to their precise nature and scope.

17. The war machine in India is a very complex organisation and it is not always possible to establish direct connection between a defence measure and a distinct class of war activities. For example, an expansion of General Headquarters may be necessitated by the putting into force of a number of measures, including the formation of an Indian Observer Corps, the raising of railway protection units, the construction of prisoners of war camps, and the despatch of troops overseas. Of these measures the first two are undertaken for Indian purposes and the third and fourth in the interests of His Majesty's Government. Similarly the creation or expansion of a Fighting Vehicles School cannot be related to one class of war activities since those trained in the school may subsequently serve in units employed in a Defence of India role or in units employed overseas. Such an expansion of General Headquarters or of training facilities clearly cannot be classified definitely as an Indian war measure or as a war measure for His Majesty's Government since it serves common purposes. Who then is to pay for measures of this kind under the Settlement? Clearly they must be classified as joint war measure, the Indian share of which becomes an Indian war measure and the balance a war measure for which His Majesty's Government is liable. This is an inevitable consequence of the Settlement and not a departure from, or an addition to, it.

There are also measures whose immediate purposes are joint in character, e.g., the creation of naval bases in India to cater for both India's local naval defence vessels and those of the Royal Navy, and schemes for the expansion of the Army in India. As regards the latter it is obvious that the expansion of her land forces is a matter in which India's interests are directly concerned but in

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so far as the additional forces raised under these expansion schemes may (provided they can be spared by India) be made available for employment overseas in the service of His Majesty's Government, that Government also is interested and has agreed to share the cost of such schemes, which may accordingly be regarded as "joint". But for this agreement India would have had to pay for them entirely herself.

18. In practice the Settlement has worked very well in an atmosphere of mutual cordiality and trust. Its application is closely watched by the Auditor General of India on behalf of both Governments; he scrutinises in detail the allocation of charges between India and His Majesty's Government and reports to the Public Accounts Committee in India the results of his scrutiny. His Report and comments go also to the Comptroller and Auditor General in the United Kingdom, and the Report of the Public Accounts Committee of the Indian Legislature is forwarded to the Public Accounts Committee of Parliament. I mention these facts in order to emphasise that the allocation of war expenditure under the Settlement between India and England is conducted in accordance with settled principles, and is open to audit on behalf of the Indian Legislature and to investigation by the Public Accounts Committee of this House.

The Settlement was concluded at a time when no major expansions in the land, sea and air forces of India or in our Supply activities were in sight. Almost immediately afterwards however the first large measure of expansion of the land forces was embarked on. It began as a measure to raise forces for the defence of India, but shortly afterwards His Majesty's Government began to ask India to supply troops for overseas service in the Middle and Far East. This India agreed to do provided the strategic situation in India permitted, and it therefore came about that, from time to time, while the expansion was in progress, troops originally raised for purposes of India's defence were released for service overseas and had to be replaced in India. These changes in the roles of new units and formations led to constant changes in the allocation of the relevant expenditure, and it soon became obvious that all expansions in the land forces in India must be considered as one joint war measure and that the cost thereof should be divided in the following manner:

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

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

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

19. The allocation of the cost of expansion of the Royal Indian Navy raised no special problem. It consists mainly of purely Indian war measures relating wholly to India's local naval defence and no difficulty has been experienced in dealing with such naval joint measures as have been put into force in accordance with the principles of the Settlement.

20. The major expansion of the Air Forces in India which I have explained has raised a financial problem of considerable magnitude. It is clear that this expansion, like that of the land forces, is a joint war measure since, although the role of the Air Forces while located in India is to defend India, some of

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

21. In addition to this problem connected with Air Force expenditure major questions regarding the incidence of expenditure on two other war activities have arisen. These relate to:

- (a) the increasingly complicated expansion of our Supply Department's activities, and
- (b) the arrival of United States Air Forces in India, and Reciprocal Lease-Lend to them.

To deal first with Supply Department activities. The Roger Mission, the Eastern Group Supply Council and later the American Technical (Grady) Mission had all been examining India's industrial war potential. They had recommended wide expansion in our war industries in multifarious directions. Many of these were being implemented, and new factories and facilities were being established, all at the cost of His Majesty's Government. At the same time India's own share of the off-take from these factories was rapidly increasing and was much larger than originally planned. Again, the establishment and expansion of major industries required the establishment of minor ancillary industries (nuts, bolts, rivets, buttons, silk filatures, and a host of others) which were spreading to almost every corner and workshop of India and the Indian States. This interrelated development was continually growing, and was growing at the capital expense of His Majesty's Government although a large amount of it was to satisfy India's own needs. Further it was being paid for and therefore owned by His Majesty's Government and the right of disposal after the war was vesting in His Majesty's Government. Again a great deal of it would be to the permanent advantage of India. It was becoming evident that, apart from the equities of the matter, it was to the mutual interests of both parties that the allocation of capital expenditure on Supply measures should be reviewed.

To turn now to the second question, namely, Reciprocal Lease-Lend to the United States forces in India. The advent of the United States Air Forces immediately raised the question of who was to pay for the Reciprocal Lease-Lend of such goods and services as India could supply. Reciprocal Lease-Lend involves immediate cash expenditure in India, just as Lease-Lend involves cash expenditure in America by the American Government. It was first necessary to decide whether the expenditure on Reciprocal Lease-Lend fell within the Financial Settlement or not, and if so how it should be allocated in some simple and broadly equitable way.

22. Besides these questions which related to the application of the existing Financial Settlement, and overshadowing them, there arose a much larger issue, namely, whether in the new situation which had developed, the terms of that Settlement were any longer capable of producing an equitable apportionment of defence liabilities. On behalf of His Majesty's Government it was pointed out that whilst on the one hand, large quantities of the most expensive modern equipment were being sent to India for the defence of India without any charge by Britain, on the other hand, the cost of the goods and services supplied by

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India for theatres of war outside India was being charged in full to His Majesty's Government. It was urged that the conception of Indian defence, on which the existing scheme rested, was too narrow in that India's liabilities were restricted to the geographical limits of India and did not extend even to operations in contiguous territory just beyond those borders. Throughout the world there was a growing recognition of the importance of the principle of "Reciprocal Aid" enunciated by President Roosevelt, namely, that each of the United Nations should contribute all it can from its own resources and in proportion to its capacity to the common war effort. It was strongly contended by His Majesty's Government that the continued operation of the Financial Settlement between India and the United Kingdom would lead to an inequitable distribution of the costs of the joint efforts to defend India and the countries with which the defence of India was intimately bound up, against the aggression of the Axis powers. It was therefore proposed on behalf of His Majesty's Government that the existing Settlement should be abandoned and that in the new arrangement it should at least be stipulated that the value of equipment supplied by His Majesty's Government for the defence of India should be set against the cost of goods and services supplied by India for use in operations outside India.

23. These problems were of such importance, and involved such major financial issues, that it was deemed advisable that I should proceed to the United Kingdom to discuss them. The discussions on the major question of a revision of the Financial Settlement were prolonged and occupied the greater part of the duration of my stay in England. On behalf of India it was pointed out that, owing to the developments in the situation since the entry of Japan into the war, the cost of the measures necessary for the defence of India and for which India is liable under the existing Settlement, was so great as to impose a very heavy strain on India's limited financial resources. Whilst it was true that the existing Settlement had in the first two years of the war operated in such a way as to shelter India from the major financial consequences of war, that was no longer the case at the present time. It was therefore strenuously contended that the existing Financial Settlement should not be abandoned and that any outstanding questions should be adjusted with strict reference to the principles of that Settlement. I need not traverse in detail all the arguments that were adduced in support of our case but I am happy to be in a position to say that the Government of India have now been informed that His Majesty's Government do not intend to pursue the proposal to modify the character of the present Financial Settlement. The Settlement therefore stands, and I have no doubt that this important decision will give as great satisfaction to the House as it has done to the Government of India.

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

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

26. The question of Reciprocal Aid to the United States Forces in India in relation to the Financial Settlement between His Majesty's Government and India has proved extremely difficult. The Mutual Aid Agreement of February 1942 between His Majesty's Government and the United States of America does not cover either the Dominions or India. That agreement provides for Reciprocal Lease-Lend as an obligation arising from the benefits of Lease-Lend. Some of the Dominions have already executed separate Agreements direct with the United States of America adopting in terms the Mutual Aid Agreement between the United Kingdom and the United States of America and thus accepting the liability for Reciprocal Aid to the United States of America. In the absence of any such separate agreement between India and the United States of America the true character and significance of India's participation in the benefits of Lease-Lend goods and services and the nature of the consideration which should be given in return, are very difficult to determine. One view would be that the Lease-Lend goods which India receives have really been Lease-lent by the United States of America to His Majesty's Government who might pass them on to India on such conditions as were mutually agreed upon. Suitable conditions would obviously be extremely difficult to devise and impose. His Majesty's Government could not pass such goods to India unconditionally because of the obligations it has assumed in respect of them. The nature and extent of the consideration for them which India would have to give to His Majesty's Government would again raise a problem that it would be exceedingly difficult to solve. It would almost certainly be expected that India would afford reciprocal Lease-Lend to the United States Forces within her territories as one element in this consideration. Again the ownership of the cash receipts which accrue from the sales of Lease-Lend goods in India to the public or to quasi-public bodies would need determination. In short, in the absence of a direct Mutual Aid Agreement between India and the United States of America the problem of Reciprocal Aid to the United States Forces in India bristles with difficulties. The possibility of entering into a direct Mutual Aid Agreement with the United States of America is at present being considered, and I can say no more at present. In the meantime Reciprocal Lease-Lend to the United States Forces in India has been shown in the Defence Estimates as a charge to Indian revenues. At the same time credit has been taken in the same estimates for all receipts expected to be realised from the sale of Lease-Lend supplies to the public, Provincial Governments, Railways and Government Departments, run on commercial or quasi-commercial lines. This decision involves a modification of the procedure announced in my last budget speech under which the value of Lease-Lend stores utilised for Indian purposes, whether civil or military, was to be charged to the budgets concerned and the corresponding credits taken to a suspense head of account.

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

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

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

29. The revised estimates of defence expenditure for the year 1942-43 amount to Rs. 1,89,75 lakhs and Rs. 49.14 lakhs under the revenue and capital heads respectively. The details are as follows:

| <i>Revenue portion.</i> | | In lakhs of Rs.. |
|------------------------------|-----------|------------------|
| (1) Basic Normal Budget | | 36,77 |
| (2) Effect of rise in prices | | 8,61 |
| (3) India's War Measures | | 1,35,96 |
| (4) Non-effective charges | | 8,41 |
| Total | | 1,89,75 |

Capital portion.

| | In lakhs of Rs. |
|---|-----------------|
| (1) Air Force— <i>aerodromes</i> | 18,37 |
| (2) Capital outlay on industrial expansion | 12,00 |
| (3) Reciprocal Aid— <i>aerodromes</i> | 12,75 |
| (4) New construction for the R. I. N. | 4,72 |
| (5) Capital outlay on Tele-communication scheme | 1,30 |
| Total | 49,14 |

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

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

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

30. *Civil Estimates*.—Civil expenditure in the current year has increased by Rs. 29½ crores over the budget estimate. This sum, as I have already indicated, includes the premia accruing from the War Risks Insurance Scheme totalling Rs. 18½ crores or Rs. 15.01 crores in excess of the budget provision. The actual increase is therefore Rs. 14½ crores and is attributable in the main to causes connected with the war and the conditions created by it, and in a lesser degree, to measures taken to meet the internal situation reflected in the disturbances which commenced in August last. I shall allude briefly to a few of the main items.

31 The approach of the enemy to the North-Eastern frontier of India greatly increased our vulnerability to attack from the air and rendered it imperative to speed up and augment our Civil Defence preparations. Precautionary measures were taken in 346 localities and the strength of the A. R. P. Services reached the figure of about 350,000. Five new A. R. P. Schools were opened to train personnel and 2,000 officers and instructors have already passed out from them. A Civil Pioneer Force has also been enrolled. While Civil Defence is primarily a matter for Provincial Governments, the Central Government has undertaken to bear a proportion of the expenditure incurred by them and we now expect our liability in the current year on this account to be Rs. 6,23 lakhs which is over 50 per cent. of the total Provincial expenditure on A. R. P. Services. The Government of India also maintain a number of Central organisations and services which together with A. R. P. measures carried out in Centrally Administered Areas will cost about Rs. 75 lakhs. In the light of the present favourable developments in the military situation, we are now making a review of our activities in this sphere but the effect of any conclusions arrived at will be reflected mainly in the expenditure of next year.

32. Pre-eminent among the problems arising from conditions created by the war is that of dearness allowance. We fully realise that, in increasing purchasing power by enhancing dearness allowance, we are not finding a permanent remedy for the problem of dearness but are exposing ourselves to the risk of inflation. This consideration affords an added incentive to our efforts in dealing with the major question of food supply, as the success of these will furnish the best safeguard against a further rise in the cost of living and consequential demands for more dearness allowance. We have estimated that the cost of

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allowances on the present scale for a full year will approximate to Rs. 1,70 lakhs for the civil administration excluding Posts and Telegraphs, Railways and Defence Services.

33. At this point I may also allude to measures we have taken to afford relief to large numbers of persons evacuated from Burma in the face of the Japanese invasion. Some 400,000 persons left that country by the land routes leading into Bengal and Assam and approximately 84,000 were evacuated by sea and air. Special organisations have had to be set up on an adequate scale to deal with these. In Assam we provided over 30 camps with medical and sanitary staffs for their reception. It has also been necessary to make advances of money to afford to those at present destitute an opportunity of rehabilitating themselves in their new environment. All these measures have cost us about Rs. 1,00 lakhs.

Apart from the war and the abnormal conditions it has created in civil life, we were confronted also with the widespread internal disturbances which commenced in August last. Here we had to come to the assistance of the Provinces already heavily burdened with Civil Defence expenditure by meeting in part the cost of expanding their police forces. On this alone we estimate to spend approximately a crore of rupees. This figure of course takes no cognisance of the great loss we have suffered in the damage to our property, particularly on Railways and in the Posts and Telegraphs Department.

34. The Supply Department has continued to expand. The only substantial changes in its organisation during the year 1942-43 have been the establishment of a new Directorate-General of Shipbuilding and Repairs and the transfer to the new Food Department of the responsibility for the procurement of foodstuffs for Defence Services. Two other important changes to which effect will be shortly given are the creation within the Directorate-General of Munitions Production of a division to handle the repair and maintenance of Service aircraft and the production of aeronautical stores on an all-India footing.

The volume of the orders with which the Supply Department has dealt may be judged from the fact that from the outbreak of war to the 31st of December 1942, the value of contracts placed by its Purchase Branch amounted to Rs. 454.5 crores. For the first nine months of 1942-43, Rs. 163.1 crores worth of orders were placed, giving a current monthly average of over Rs. 18 crores.

There are signs, however, that the curve of production is flattening and that for certain items—particularly clothing and personal equipment which have been in large scale production for a long time—there may be a falling off.

35. I have now reached the end of 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. 26.76 lakhs, while there is a net increase of Rs. 86.35 lakhs under expenditure charged to revenue. Thus we expect to end the year with a revenue deficit of Rs. 94.66 lakhs.

FINANCIAL YEAR 1943-44.

Revenue.

36. I now come to the financial year 1943-44. Our total revenue estimates amount to Rs. 199.30 lakhs as compared with Rs. 178.76 lakhs in the revised estimates of the current year. Under Customs revenue we are providing for Rs. 30 crores against Rs. 31 crores in the current year. The position in this respect is now governed mainly by the amount of shipping space available for private merchandise which, as the war develops, tends constantly to shrink. In taking a figure of Rs. 30 crores for 1943-44 we are, therefore, probably being optimistic. Under Central Excise Duties we expect an increase of Rs. 84 lakhs, solely on account of sugar. The output of this commodity during the past year has been restricted by difficulties which, in the year before us, we trust will be removed.

As regards Corporation tax and other taxes on income, including Excess Profits Tax, we have, after taking into account the trend of our recent collections and making allowance for the assessments yet to be made, raised our estimate of the total yield from these taxes by Rs. 17 crores. Of a total of Rs. 95 crores estimated under these two heads of revenue, Excess Profits Tax alone is expected to yield Rs. 40 crores. The divisible pool of income-tax has been taken as Rs. 33.19 crores and the share available to Provinces will be even better than in the current year, touching the record figure of Rs. 12.10 crores. Under Salt, we are allowing only a modest increase of Rs. 50 lakhs over the current year's budget estimates. In view of the improved demand for opium and morphine for medical purposes both in India and abroad, we are placing our estimates of opium revenue at Rs. 1.08 lakhs.

As a result of the financial arrangement with His Majesty's Government in regard to the Railway Annuities, we will receive next year about Rs. 87 lakhs, representing the interest portion of the credit to be made available by His Majesty's Government and this is reflected in the improved receipts under Interest. Our Currency and Mint receipts for next year are placed at a higher level than in the current year's budget for the reasons I have already stated in dealing with the revised estimates for the current year.

37. We are allowing Rs. 27.10 lakhs as the contribution from Railways to General Revenues, in pursuance of the revised arrangements placed before the House recently.

For next year the revenue of the Posts and Telegraphs Department is expected to be Rs. 20.73 lakhs and expenditure Rs. 13.57 lakhs. The larger revenue is mainly due to the general increase in traffic and the taking over by Government of the systems belonging to Telephone companies at Bombay, Calcutta and Madras whose licences expire in 1943. The whole of the surplus of Rs. 7.16 lakhs in 1943-44 is being treated as an outright contribution to General Revenues.

Expenditure.

38. *Defence Services.*—The budget estimates of defence expenditure for 1943-44 amount to Rs. 1,82,81 lakhs and Rs. 16,85 lakhs under the revenue and capital heads respectively. The details are as follows:

Revenue portion.

| | Lakhs of Rs. |
|--|---------------------|
| (1) Basic normal budget | 36,77 |
| (2) Effect of rise in prices | 10,62 |
| (3) India's war measures | 1,27,01 |
| (4) Non-effective charges | 8,41 |
| Total | 1,82,81 |

Capital portion.

| | |
|---|--------------|
| (1) Air Force—aerodromes | 2,52 |
| (2) Capital outlay on industrial expansion | 4,00 |
| (3) Reciprocal Aid—aerodromes | 2,85 |
| (4) New construction for the R. I. N. | 3,28 |
| (5) Capital outlay on Tele-communication scheme | 4,20 |
| Total | 16,85 |

In the revenue portion the increase over the revised estimates in item (2) is based on the anticipated general level of prices during 1943-44 and allows for the effect for a full year of increases in pay and allowances sanctioned for British and Indian troops during the course of the year 1942-43. In regard to item (3), the decrease of Rs. 9 crores as compared with the revised estimates is the net result of large increases and decreases. The increases in the main are due to the operation throughout the year of improvements in pay and allowances of defence personnel, and of the grant of field service concessions to troops serving in India, and to the higher average strength of the defence forces in

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India. The increases have been more than counter-balanced by a lump deduction made to allow for possible movements of troops out of India and for a heavier receipt (Rs. 15,00 lakhs) on account of Lease-Lend supplies utilised by the public, Provincial Governments, Railways and the Posts and Telegraphs Department.

It will be noticed that for the first time since the war began our estimates envisage a decrease in the defence budget as compared with the revised so far as expenditure charged to revenue is concerned, and, although it would be unsafe to conclude from this that India has now reached the peak of her own war expenditure, it is legitimate to hope that the stage of heavy additions is past.

The large decrease in the provision under the capital section of the budget estimates as compared with the revised reflects the completion during 1942-43 of the bulk of the programme of aerodrome construction for the Air Forces in India as well as for the United States Army Air Corps.

Civil Estimates.

39. Our civil expenditure shows a reduction of about Rs. 7 crores as compared with the revised estimates of the current year. Of this a little more than Rs. 4½ crores is accounted for by smaller receipts from the Factories War Risk Insurance Scheme which figure as expenditure on transfer to the relevant fund. Five out of the eight instalments of the premia relating to the Scheme will have been realised by the close of the current financial year, leaving only three instalments to be collected next year. A reduction of Rs. 2½ crores in respect of Civil Defence expenditure is also anticipated as a result of the general improvement in the war situation and the less imminent threat of enemy attacks. We hope, indeed, that the provision now made on this account will be still further reduced as the result of provisional conclusions reached at a recent conference on future Civil Defence policy. On the other hand, we are providing for an increase of Rs. 1,30 lakhs over the revised estimates for the current year under Interest. This requires a little explanation. Though as a result of the repayment of the non-terminable sterling loans and Railway Debentures there will be a saving of Rs. 3,78 lakhs, interest on the loans we have floated in India in 1942-43 and which we expect to float in 1943-44 will cost us in all Rs. 3.50 lakhs. Other factors which have affected our interest charges are the diminution in the interest payments from certain Provincial Governments resulting from the repayment of a capital portion of their consolidated debt, the growing Railway Depreciation Fund, and the accretions to our floating debt occasioned by revenue deficits and capital expenditure.

40. The food crisis that developed during the course of the year has rendered it necessary for Government to create a separate Food Department. We are trying to induce the producer, by propaganda and other means, to market his produce freely, and control measures are also being taken to suppress hoarding and to ensure a freer flow of commodities. Under the scheme, the surpluses of certain Provinces will be bought for the purpose of equalising the deficits of other Provinces. Special steps are being taken to see that the grain obtained by the Government agencies reaches the individual consumer at a reasonable price. Any estimate of the financial outlay involved must, at this stage, be conjectural but we estimate that the total purchases during 1943-44 will amount to approximately Rs. 75 crores. This will be met by the Central Government in the first instance and recovered later from the Provincial Governments on whose behalf purchases are made.

The Government of India are determined to spare no effort to increase the production of essential food commodities and are anxious that at this stage no scheme which affords promise of making an early and substantial contribution to this end should be excluded from consideration on purely financial grounds. Pending a decision on the specific measures to be taken, we have provided in

the budget a round sum of Rs. 50 lakhs, but we would not limit our expenditure to that figure if further outlay were to offer a greatly enhanced prospect of achieving our object.

41. I can now summarise the position for the coming year. The expenditure detailed in the Civil estimates comes to Rs. 76,78 lakhs, and the provision for Defence Services has been placed at Rs. 182,81 lakhs. Our total expenditure estimates thus amount to Rs. 259,59 lakhs. The total revenue at the existing levels of taxation is estimated at Rs. 199,30 lakhs. We are thus left with a prospective revenue deficit of Rs. 60,29 lakhs.

WAYS AND MEANS.

42. I shall now proceed to outline the broad features of our ways and means position, which with the intensification of the multifarious demands made by the war, has now become a formidable pre-occupation for Government.

The subscriptions to the Defence Loans during the period beginning from the 1st February 1942 and ending with 31st January 1943 amounted to Rs. 34½ crores, raising the total proceeds to Rs. 145 crores since the Defence Loans were first issued in June 1940. The Second Defence Loan which was closed on the 14th February 1942 was followed in July 1942 by the Third Defence Loan, which is a re-issue of the 3 per cent. 1951-54. In October 1942 there was also a special re-issue of the 3 per cent. 1963-65 in connection with the funding of our liabilities in respect of railway annuities, the amount offered and taken up being Rs. 15 crores. While the sales of Defence Savings Certificates and investment in the interest-free Defence Bonds have continued it would appear that the effect of the initial momentum is being lost and a far more vivid realisation of the importance to the ordinary citizen of utilising these channels of investment for the common good as well as for the furtherance of the country's war effort is called for. At the same time it should be remembered that in addition to the subscriptions to the Defence Loans there is a steady investment of new money in Government loans through the machinery created and developed in connection with the repatriation of our sterling debt. Opportunities are available to the public for investing in a variety of Government loans consisting of counterparts of the repatriated stocks or the re-issue of existing rupee loans into which some of these were converted, and these opportunities are being utilised especially by institutional investors. The total public investment made through this channel amounted to Rs. 56 crores over the 12 months. Lastly, about Rs. 8 crores of new money was subscribed during this period to certain provincial loans floated to enable the provinces to make advance repayments of a part of the consolidated debts due to the Centre. Together with the subscriptions to the Defence Loans, these investments aggregate to Rs. 98 crores over the 12 months and to Rs. 267½ crores since the beginning of the war. The latest trends are however much more encouraging than those figures would suggest. Our total receipts of loan money during the second half of 1942 amounted to over Rs. 73 crores, and in January 1943 to 11 crores. At the same time the net increase in our short term borrowings from the public by the sale of treasury bills during these seven months was Rs. 48 crores. Total borrowings thus averaged nearly Rs. 19 crores a month during that period.

43. While the aggregate support to public loans compares very favourably with the normal scale of public borrowing in India, as I observed last year, the call for a greatly increased transfer of purchasing power from the hands of the public to the Exchequer through the medium of loans has lost none of its cogency and has indeed been strikingly reinforced by subsequent developments. Apart from the greatly increased war expenditure in India, both on our account and that of His Majesty's and other allied Governments, for whom we have to find the rupee finance, the general economic situation resulting from war conditions makes it imperative for every citizen to defer private expenditure to the utmost of his capacity in the common interest and to transfer the investible surplus to Government in the form of loans. It may well be said

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that in the context of a war economy a public loan is "Twice blessed; It blesseth him that gives and him that takes". To the State it spells an indispensable aid to victory while to the investor it means not only a precaution against the perils and uncertainties of the transition from war to peace after victory has been gained, but also a potent preventive against the economic and social disorder which may arise from the uncontrolled exercise of purchasing power in relation to limited or diminishing stocks of consumable goods.

Even apart from these public reasons, and looking at the matter from the narrow individual point of view, investment in Government securities offers advantages provided by few other forms of investment in war time. With the vastly improved technique which has now been developed here as in England for controlling the securities market, risks of capital depreciation have been minimised to an extent which must cause astonishment to those who can remember the position in this respect during the last war. The fixation of minimum prices together with the organisation for maintaining them with the Central Bank's open market operations may be said to have placed security values beyond the range of the major fluctuations which the changing fortunes of war used to create in this market. Moreover, the war itself has taken a turn which reinforces and justifies the faith in ultimate victory that has always inspired the United Nations:

44. The expansion of the volume of recoverable war expenditure and purchases on behalf of His Majesty's Government and Allied Governments have continued throughout the year, although the net refunds by the Secretary of State which were estimated to be £164 million in all will fall somewhat short of the forecast, owing to the funding of Railway annuities and the acquisition of Railway Debenture Stocks. This should leave some £100 million of fresh accretions with the Reserve Bank, in addition to its own purchases from banks and on trade and other accounts.

45. The House is now familiar with the main features of our scheme of repatriating the sterling debt and I need not traverse again the ground covered in the last two budget speeches. The bulk of the payment in respect of the 2½ per cent. and 3 per cent. undated sterling loans which I mentioned last year, was effected in March last, the necessary sterling amounting to £60 million being provided with ease by the Reserve Bank. No counterparts were created this time, as for the first tranche of the repatriation programme, and the entire rupee finance was raised in the first instance by means of *ad hoc* treasury bills issued in favour of the Reserve Bank. Subsequent stray lots of the vested stocks as well as the market purchases of the 3½ per cent. stock were financed from our balances, but for the last and final stage of redeeming £58½ million of the 3½ per cent. stock the rupee finance was again in the form of *ad hoc* treasury bills.

That some £300 million of sterling debt should have been repatriated since the outbreak of war, with so little disturbance to the money market is a consummation for which the country may well feel gratified. The balance of sterling stock which fell beyond the scope of the vesting orders and which has not been surrendered in exercise of the option given to holders or which has not yet been redeemed owing to non-presentation of claims is only about £13 million. I know the House will join with me in acknowledging the assistance rendered in this momentous series of transactions by His Majesty's Government and in appreciating the co-operation of the Bank of England and the Reserve Bank in putting them through with smoothness and efficiency.

And here I must on behalf of the Government of India and myself pay a tribute to the immense personal services rendered by the late Sir James Taylor, whose sudden and untimely death a few days ago has been a bitter blow to all who have worked with him in the sphere of Indian finance, and whose sound judgment, ripe experience, and loyal counsel could so ill be spared in these difficult times.

46. We have taken advantage of the large sterling balances still available after the repatriation of the sterling loans to fund our outside obligations in respect of Railway annuities by arrangement with His Majesty's Government and, with their co-operation once again, to repatriate Railway Stocks. In the former case we have funded a rather complicated series of Railway annuities by the payment of a lump sum of £30 million to His Majesty's Government, who have undertaken to provide the annual sums required for payment to the annuitants until their termination, the flat rate of interest taken as a fair basis for the arrangement on actuarial calculations being $2\frac{1}{2}$ per cent.

The vesting of Railway Debenture Stocks of the face value of £20 million has already been announced and notice has also been given of the redemption on the 4th February 1944 of three $3\frac{1}{2}$ per cent. Debenture Stocks for which the vesting procedure would have been inappropriate as in the case of the $3\frac{1}{2}$ per cent. undated sterling stock. The payment for the vested debentures will be made during the course of the current financial year. The rate at which sterling is accumulating with the Reserve Bank has not only enabled it to provide us with the sterling needed for our repatriation and other transactions, but left a surplus well above its reasonable reserve requirements.

47. And thus India has completed the transition from a debtor to a creditor country and extinguished within the brief space of about three years accumulations over decades of its public indebtedness to the United Kingdom. Apart from the immediate exchange gain of a substantial relief from the necessity of finding sterling annually for the payment of interest charges, a great deal could be said on the implications of this remarkable change in India's status. To deal adequately with that theme and to attempt to prognosticate the role which India is destined to play in the post-war world, would carry me far beyond the limits of a budget speech.

As I observed last year the temporary revenue gain to the budget is of minor consequence, being conditioned by the progress of funding the floating rupee debt raised for financing repatriation. It is difficult to state with precision to what extent the funding of floating debt raised for the purpose of repatriation has been achieved, since borrowing of both temporary and permanent nature is resorted to for other purposes besides repatriation and Government's balances are also increased by the payment which the Reserve Bank makes from time to time for the "Rupee coin" that it takes over. The broad position may be said to be that of some Rs. 400 crores raised so far for financing the various repatriation and funding operations, only Rs. 160 crores may be regarded as being still in the form of Central Bank finance, since that is the amount by which the rupee securities held by the Reserve Bank as cover against its note issue exceed the corresponding figure at the outbreak of the war.

48. The question of the future utilisation of India's sterling balances is one which has attracted intense public interest in recent months and has been the subject of much speculation. It is a question which also naturally engages the continuous attention of the Government. Hitherto action has been concentrated on extinguishing as many as possible of our public sterling liabilities, and this is obviously the primary use to which surplus sterling assets should be put. With the virtual cessation of payments on interest account to external bond-holders, the only substantial liability still remaining on account of which sterling remittance would normally be necessary will be payments on account of sterling pensions, family pensions and provident funds. It is estimated that these charges in the period that lies ahead will be of the order of from £5 to £6 million a year. The Government of India have accordingly had under consideration a scheme for making advance provision for the requisite sterling remittance wherewith to meet future payments in respect of these liabilities on the lines of the arrangement recently made for sterling railway annuities. This would in effect involve the purchase from His Majesty's Government, by the investment of a capital sum at a suitable rate of interest, of the right to

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receive a series of sterling payments estimated to be sufficient to meet the relevant charges over the period during which they are likely to have to be met. These charges, and consequently the sterling remittance required to meet them, would naturally after a certain time gradually decline in amount until they disappeared, and the transaction might thus be described as the purchase of a tapering annuity. It is not contemplated that the rights of any class of Government servants would be affected, or that the liability to pensioners should be transferred from the Government of India. The arrangement would be purely financial, and would amount to the investment of a capital sum in return for which the Government of India would at stated intervals receive stated sums of sterling with which they would be in a position, as far as can be estimated, to meet these sterling obligations. This investment would naturally provide a much more favourable rate of interest than that earned on the present investments in sterling treasury bills.

49. An arrangement of the nature just described would be capable of absorbing a considerable sterling sum, and would indeed be the equivalent of a large scale repatriation. There would however still remain, as far as can be judged from the rate at which sterling is accruing, a substantial surplus above the amount which is likely to be required as a reserve against our currency note circulation. The Government of India are therefore at the same time considering the proposal, which has been made from several quarters, that something in the nature of a Reconstruction Fund should be constituted to provide for the financing of a programme of post-war reconstruction, including the rehabilitation and re-equipment of industry. It is clear that in the post-war period India will have heavy demands for imported machinery and plant to equip her greatly expanded industrial system, to re-equip her railways and to enable Provincial and State Governments to carry out schemes of electrification, irrigation and the like, which have had to remain in abeyance during the war. It may be taken for granted that it will be found necessary even after the end of the war to proceed on some orderly programme for the purchase of these capital goods from the producing countries. In this respect the position may well be found to be not greatly dissimilar from the present situation in regard to the procurement from overseas sources of the plant and equipment necessary for war production. The first essential would probably be a careful and comprehensive survey of India's requirements and the establishment of some order of priority upon which a programme could be drawn up. In so far as this programme depended on the ability of producing countries to release certain types of goods for export, it would clearly involve international co-operation, and in particular the assistance and co-operation of His Majesty's Government. The existence of such a Reconstruction Fund coupled with a concerted programme of requirements would place India in a favourable position to endeavour to secure the early fulfilment of her post-war needs and so enable her to go ahead with post-war reconstruction with the minimum of delay.

50. I turn now to a consideration of the general currency position and the problem that is exercising the minds of all of us. As the all round rise in prices resulting from complex and interacting factors in war conditions tends progressively to lower the standard of living of every one, thoughts naturally turn more and more insistently to the causes of the trouble and possible remedies. Of late there have been a number of non-official communications to Government and pronouncements by economists, both professional and amateur, on this subject, according to which the source of the trouble is the arrangements in force for making rupee disbursements on behalf of His Majesty's Government and Allied Governments, and the currency machinery of the Reserve Bank is regarded as the conduit pipe of inflationary credit. I feel it necessary, therefore, to state certain broad conclusions in order that the problem may be viewed in the right perspective.

51. As in all discussions of this nature, a great deal depends on the point from which the initial approach is made. I would therefore make certain preliminary general observations. First, India's war effort has clearly not yet reached the ceiling of the maximum utilization of available manpower and resources, and public expenditure on supplies, purchases, works, etc., still continues to promote the end in view, which is the defeat of the enemy and the safety of India. Secondly, in a common war effort the usual methods of settling international indebtedness in goods and services are not available and for a variety of reasons it is not possible to give play to the usual checks employed in order to adjust international trade relations, *i.e.*, it is not possible to increase the volume of commercial imports or to adjust the trade balance by an upward movement in the rate of exchange. Thirdly, since disbursements must be made in Indian currency, the question of how war expenditure is allotted is irrelevant so far as the inflation aspect of the problem is concerned, although from the point of view of the final settlement it is, of course, of considerable importance. In other words, other things being equal, as for instance, the conditions governing the extent to which taxation and borrowing are feasible, the size of the sterling balances accumulating in India's favour has no direct bearing on the internal problem. Lastly, on the only assumption on which it is at all possible to deal with the problems of the future, namely, that the war will result in victory for the United Nations, and that both the United Kingdom and the Government of India will therefore be in a position to pursue sound financial policies, there is not the remotest risk of inflation of the nature and on the scale which occurred in some of the countries which suffered utter defeat in the last war. Without wishing to minimise the importance of the twin problem of sterling balances and inflation, I venture to suggest that on the above postulates we need not allow ourselves to take too pessimistic a view of the currency expansion that has taken place so far and that may be expected in the future.

52. So far as the accumulations of sterling are concerned, if regard is had to the identity of purpose of the United Nations, it seems to me that the only reasonable principle on which one could proceed is to ensure that indebtedness is not allowed to increase in one direction while there are set offs of existing indebtedness that can fairly and practically be made in the other direction. It is on this principle that His Majesty's Government and the Government of India have so far concerted measures for repatriating sterling debt and other public obligations of India expressed in sterling, and we shall continue to explore the scope for further action in the same direction. I cannot share the anxiety of those who appear to regard the surplus balances as almost in the nature of useless assets. Apart from their being available as a reserve wherewith to pay for the capital goods which the United Kingdom will be in a position to supply for India's industrial expansion and the replacement of machinery after the strain which will have been put on it during the period of the war, India's balances should enable her to trade as one of the principal commercial countries of the world and play a helpful part in building up a system of international trade such as would ensure a fair market for goods of export.

53. In my opinion some of the fear which is now expressed arises from a failure to distinguish between pure credit inflation and the temporary situation in which an increase in the volume of purchasing power impinges for a time on a stationary or diminishing volume of consumable goods. Here in India I think we can say with a clear conscience that the Government has at no time resorted to credit inflation. The easy expedient of borrowing from the Reserve Bank has not been adopted for making up the revenue deficits of governmental budgets or for augmenting governmental balances for the purpose of meeting disbursements. I have already referred to the *ad hoc* treasury bills through which repatriation has partially been financed. but I should not like the House to go away with the impression that this at any rate is credit

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inflation. That very definitely it is not. At no stage of the repatriation programme has there been any expansion of currency against the *ad hoc* treasury bills created. These treasury bills merely replace the sterling against which currency had already been expanded in the ordinary course in order to meet legitimate demands for the means for making cash payments, and the substitution merely amounts to a readjustment of the assets of the Reserve Bank's Issue Department. The true position surely is that here is a block of investment waiting to be taken up by the nation for which it has been acquired.

54. Owing to the inevitable imperfections of our economic statistics a quantitative determination of the phenomenon of inflation is even more difficult in this country than in the United Kingdom or the United States of America. Without wishing to be dogmatic, however, I should like to draw attention to what appear to me to be the prevalent misconceptions on this subject. The first is that a general rise in prices must mean inflation and that it is caused by avoidable expansion of currency. To my mind this notion is the result of confusing cause and effect and misinterpreting the elementary fact that all the expansion and intensification of Government's war activities involves cash payments to an ever widening circle of recipients in return for labour and raw material or services. The airarms and excursions of war also tend to create varying preferences for settlement of claims in cash among sections of the public over methods customary in peace time and in other countries, e.g., by cheque, thus increasing the *per capita* cash requirements of a huge and expanding population. To stop issuing the currency which the public needs in such circumstances would simply mean a corresponding or even disproportionate curtailment of the whole war effort.

Moreover, not all the Government disbursements on war purposes necessarily or proportionately contribute to a rise in prices, even though Government's war effort curtails the production or import of civilian goods, as it is bound to do to some extent. That purchasing power may not all be employed for the purchase of such goods, and much depends on the rate at which money is being turned over in the process. Hoarded cash, for instance, exerts no pressure on prices. Similarly deposits in banks may have an effect on prices much smaller than their volume would suggest if their rate of turnover is slower than normal. *That this is the case is shown by the ratio of average deposits of scheduled banks to banks clearings, which is 6.6 for the first 9 months of the current year against 15.6 in 1938-39. Both these are forms of a liquidity preference which, while it lasts, tempers the rise in prices.

In assessing the significance of a rise in prices it is also necessary to remind ourselves that we did not start from an optimum price-level and that the prices of many essential articles, particularly agricultural commodities, had been by general consent unduly depressed for years prior to the outbreak of hostilities and the problem had been not how to keep them from rising, but how to stimulate them. In any analysis of inflation on the basis of price indices allowance must therefore be made for the taking up of the slack. This is not to say, however, that any of us can afford to evade the problem or to allow what may not be a serious situation today to develop into one for lack of timely and vigilant action. It would be foolish to ignore the crux of the matter, which is that in the lopsided economic set up of a country at war free purchasing power is a potential source of danger.

55. That being so, I most earnestly deprecate loose talk and wild exaggeration in these matters: for they are the parents of panic buying and hoarding, and these in their turn benefit only the profiteer and the speculator. There is the most urgent need for economy in personal expenditure at the present time, not only because lavish expenditure will raise the level of prices, but also

because of the need for conserving supplies of scarce materials for war purposes. After the war, when war-demands will inevitably have greatly shrunk, if not have vanished entirely and when the question of securing and maintaining the level of employment will have become more urgent, there will be ample justification for increased spending and it will then be a valuable safeguard against falling prices. During the war itself, there is an obvious alternative to private spending—an alternative, moreover, which most powerfully assists the war effort and greatly reduces the risks attaching to the increase in the volume of purchasing power, which, I may add, is characteristic of the situation in every part of the world and not of the Indian position alone. That alternative is investment in loans of the Government of India on the largest possible scale. A free flow of savings into Government loans will not only greatly ease the strain on Government finances, but it reduces competition for the greatly shrunken volume of consumers goods which is all that is now available. At the same time, it does not deprive the public of the opportunity ultimately of enjoying the fruit of present self-denial—in which respect it differs greatly from increased taxation. I am convinced that our sheet-anchor in the present emergency must be more and more borrowing.

NEW PROPOSALS.

56. It remains for me finally to lay before the House the proposals of the Government for dealing with the revenue deficit of Rs. 60.29 crores which, on the estimates I have presented, is anticipated in the forthcoming financial year. We have also, in this context, to bear in mind that the current year will, it is estimated, close with a revenue deficit of Rs. 94.66 crores. By far the larger part of these sums has, of course, to be met by borrowing, but it is proposed to raise Rs. 20 crores, or approximately one-third of the prospective deficit, by new taxation. Last year we introduced into our system of direct taxation certain features which combined the methods of borrowing and taxation. Whilst such experience as we have had justifies the retention of these features, it is not proposed to endeavour to extend their scope further this year. The reasons are not far to seek. The incomes which come within the orbit of our income-tax system are those of a comparatively small fraction of the population, a section in which, moreover, the habit of investment in public loans is generally speaking already well established. It is impossible to deal adequately with the problem of surplus purchasing power by methods which do not touch agricultural income at all and which are inapplicable to that vast body of industrial employees whose incomes fall below any taxable minimum which it is practicable to adopt. It is therefore clear that the national savings movement must cast its net far more widely and must secure the co-operation of large elements in the country who are not affected by direct taxation. Whilst action on these lines thus calls for unremitting attention and a constantly renewed endeavour, it will not affect our immediate proposals.

57. To deal first with income-tax, there will be no change in regard to incomes up to Rs. 5,000. On the next slab of incomes from Rs. 5,000 to Rs. 10,000 the central surcharge will be increased from 9 pies to 10 pies in the rupee, and on the slab from Rs. 10,000 to Rs. 15,000 it will be raised from 14 to 16 pies in the rupee; on the balance above Rs. 15,000 the surcharge will be increased from 15 to 20 pies in the rupee. The effect of these changes will be to impose a surcharge amounting uniformly to 66½ per cent. over the basic rates of income-tax. At the same time there will be an increase in the super-tax on the slabs of income between Rs. 25,000 and Rs. 3½ lakhs: here the surcharge will be raised uniformly by half an anna in the rupee. The resultant aggregate rates of super-tax, including surcharge, will thus run from two annas in the rupee on the lowest slab to ten and a half annas on the top slab. Corporation tax will also be raised by half an anna, to a rate of two annas in the rupee. The Excess Profits Tax will be extended to cover the profits of a further period

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of one year, but the rate of 66½ per cent. will remain unchanged. The additional revenue from these changes in direct taxation is estimated at Rs. 7 crores in the coming year.

58. Turning now to indirect taxes, I would observe in the first place that it is proposed to continue for a further period of one year the levy of the emergency surcharge of one-fifth over the schedule of customs import duties which was imposed in the last Finance Act. We are still fully conscious of the disadvantages which would attach to a measure of this kind in normal times, but our import trade must remain subject for the time being to highly abnormal restrictions and emergency control, and in these circumstances we cannot afford to forego such gain as accrues to our revenues from the additional duties. For the rest, we propose to introduce two new taxes, an excise duty on tobacco and an excise duty on vegetable product.

The quantity of tobacco consumed in India is extremely large; but, while imports have long been subject to customs duties at luxury rates, the problem of its internal taxation has hitherto defied solution, thus leaving a notable gap in India's fiscal system. Tobacco's unique eligibility for taxation is universally acknowledged; it is not a necessity of life, its use is widespread, and its consumption can be varied greatly, according to the means of the consumer. By various methods, ranging from a State monopoly to the licensing of vend, it is taxed in almost every other civilised country in the world, and experience in these countries shews its immense revenue possibilities. The feasibility of systematic taxation on an all-India basis was repeatedly examined by the Government of India and in 1925 the Indian Taxation Enquiry Committee observed that "the considerations which led in other countries to the selection of tobacco as one of the principal subjects for consumption taxation apply with equal force to India." The problem was last investigated in 1930-31, but no solution was found and provinces were accordingly encouraged to derive what revenue they could from the control or taxation of retail vend and generally to develop this field of taxation in the hope that experience of the various schemes suggested might lead to the evolution of a practicable general excise system. Apart from the obvious administrative difficulties, the two chief obstacles at that time were that the tax on tobacco was not then a Central prerogative and that even if provinces introduced identical legislation there then existed no organisation capable of operating the excise on an all-India basis. These obstacles no longer exist. Under the present Constitution Act the power to levy a tobacco excise has been clearly allocated to the Centre, and with the development of central excises which has taken place in recent years we have organised the administrative machinery on lines which now enable us to tackle the operation of a new all-India Excise. In view, therefore, of the compelling need for additional revenue we have decided to introduce a Bill for the levy of excise duties on tobacco produced or manufactured in India, with the exception of tobacco grown for the personal consumption of the grower or the members of his household. Administrative difficulties undoubtedly remain, but we have for some time now been engaged on a detailed survey of the field and we are convinced that with care and close attention they can be satisfactorily overcome. The system will be more fully described when consideration of the Bill is moved; all I need say now is that it embraces all forms of tobacco, that duty will become chargeable only after the tobacco has been cured and will in some cases be charged on the manufactured product; that the rules allow payment to be postponed till the tobacco is about to pass into manufacture or consumption; that the scale of duties has been so devised as to cause only a modest increase in retail prices; that full drawback will be granted on exports and that the cost of administration will form but a small percentage of the yield. On the limited data now available the yield of the tax cannot be precisely calculated but we estimate a gross return of Rs. 10½ crores during the first year. I may observe here that in the course of our enquiries we have been impressed by the considerable scope

which exists for development of this important cash crop, both in extending the cultivation of, and internal and external trade in, high quality leaf, and in generally improving production and marketing; and we propose to make an annual grant of Rs. 10 lakhs for the purpose of financing measures designed to bring about such improvements.

The proposed excise on vegetable product, sometimes known as *vanaspatti*, raises no administrative difficulties. There has for a long time been public agitation against the frequent use of this product for adulterating natural ghee, but that is an aspect which is not directly relevant to our present purpose, which is to raise new revenue. The rate proposed for the new tax is Rs. 7 per cwt., and the estimated yield is Rs. 140 lakhs.

59. We propose finally to make certain increases in our postal and telephone rates, which are estimated to yield approximately Rs. 120 lakhs. The changes are an increase in the inland letter rate for each tola after the first from half an anna to one anna; an increase in the inland parcel rate for the first 40 tolas from 4 annas to 6 annas and an increase in the existing surcharge on telephone rentals from 1/6th to 1/3rd.

CONCLUSION

60. The total estimated yield from new taxation thus amounts to Rs. 20.1 crores leaving a revenue deficit of Rs. 40.19 crores to be covered by our borrowing programme. When it is remembered that this is the estimated position for a period which will carry us to the end of four and a half years of war, it can, I submit, only be viewed with extreme satisfaction. Honourable Members will find, in the Explanatory Memorandum a statement summarizing the position in regard to our public debt, as it stood before the war, and will stand, on the basis of our present estimates, at the end of March 1944. These figures are explained in the Memorandum which shows that, as compared with the last pre-war figure of Rs. 1,185 crores, the total interest-bearing obligations of the Government of India will have increased by Rs. 88 crores by the end of the current year and by Rs. 146 crores by the end of next year. Practically the whole of this is in the form of internal rupee debt, and the increase covers the estimated revenue deficits and capital expenditure on defence. It will be seen that excluding the capital of Railways and of Posts and Telegraphs, certain loans and advances, investments and cash, the so-called deadweight debt at the end of 1943-44 is estimated at no more than Rs. 317 crores. Even against this we shall hold, in addition to a vast amount of Central property, a quantity of partially remunerative assets. As against the modest net annual liabilities which the service of this debt will impose, we have in recent years called into being important new sources of revenue, which cannot fail, even after purely war-time features have been discarded, to contribute powerfully to the strength of the budgetary position.

In the consciousness of this intrinsic strength India can face the future with confidence and can play her part among the United Nations. Immediately ahead lies the stage of final effort which alone can lead to the consummation of victory, a stage which can be shortened not by eager hopes but by unremitting endeavour. Beyond this lies the stage of international co-operation in the great tasks of reconstruction, and in laying the foundations of a peace that can be maintained; and here too India will have a part no less significant than in the winning of victory.

THE INDIAN FINANCE BILL.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1943.

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

"That leave be granted to introduce the Indian Finance Bill, 1943."

The motion was adopted.

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

THE TOBACCO (EXCISE DUTY) BILL.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, I move for leave to introduce a Bill to provide for the imposition and collection of excise duties on tobacco.

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

“That leave be granted to introduce a Bill to provide for the imposition and collection of excise duties on tobacco.”

The motion was adopted.

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

THE VEGETABLE PRODUCT (EXCISE DUTY) BILL.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, I move for leave to introduce a Bill to provide for the imposition and collection of an excise duty on vegetable product.

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

“That leave be granted to introduce a Bill to provide for the imposition and collection of an excise duty on vegetable product.”

The motion was adopted.

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

The Assembly then adjourned till Eleven of the Clock on Monday, the 1st March, 1943.