29th February 1940

THE

LEGISLATIVE ASSEMBLY DEBATES

Official Report

Volume I, 1940

(6th February to 5th March, 1940)

ELEVENTH SESSION

OF THE

FIFTH LEGISLATIVE ASSEMBLY,

1940

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Legislative Assembly.

President:

THE HONOURABLE SIR ABDUR RAHIM, K.C.S.I.

Deputy President:

MR. AKHIL CHANDRA DATTA, M.L.A.

Panel of Chairmen:

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MR. M. S. ANEY, M.L.A.

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MR. A. AIKMAN, C.I.E., M.L.A.

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MIAN MUHAMMAD RAFI, BAR.-AT-LAW.

Assistants of the Secretary:

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KHAN SAHIB S. G. HASNAIN.

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CAPTAIN HAJI SARDAR NUR AHMAD KHAN, M.C., I.O.M., I.A.

Committee on Petitions:

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SYED GHULAM BHIK NAIRANG, M.L.A.

MR. N. M. JOSHI, M.L.A.

SIR ABDUL HALIM GHUZNAVI, M.L.A.

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Volume I.—*6th February to 5th March, 1940.*

LEGISLATIVE ASSEMBLY

Thursday, 29th February, 1940.

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

MEMBER SWORN:

Sir Gurunath Venkatesh Bewoor, C.I.E., M.L.A. (Director General of Posts and Telegraphs).

STARRED QUESTIONS AND ANSWERS†.

(a) WRITTEN ANSWERS.

PROMOTION OF OFFICIATING DIVISIONAL ACCOUNTANTS BY THE ACCOUNTANT GENERAL, BOMBAY.

241. ***Pandit Krishna Kant Malaviya:** Will the Honourable the Finance Member be pleased to state:

(a) whether the Accountant General, Bombay, issued orders promoting officiating Divisional Accountants under his office order No. 13, dated the 16th July, 1925, and ordered the promotions to take effect from the date of his orders;

(b) whether 15 appointments of Divisional Accountants on temporary establishment under Resolution No. P.-190/56/1657, dated the 31st March, 1924, were created from the 1st July, 1923, and the Chief Engineer, Lloyd Barrage and Canals Construction, was authorised to increase the number to 29 as and when necessary under Resolution No. P.-190-56-18522, dated the 8th December, 1924;

(c) if the reply to parts (a) and (b) be in the affirmative, against which vacancies the promotions were ordered by the Accountant General, Bombay;

(d) whether it is a fact that by giving effect to the orders of promotion from a date later than the date of creation of appointments some of the Divisional Accountants out of those promoted under the Accountant General's order mentioned in part (a) above are suffering a progressive loss in the shape of postponed increments due to their proceeding on leave with or without medical certificate during the interval—*i.e.*, the date of creating the appointments and the date of promotion;

(e) whether it is a fact that orders were issued for promoting Divisional Accountants to the substantive permanent posts under his No. W. M. A. E./26, dated the 12th September, 1936, so as to take effect from the 13th November, 1934, the date from which substantive permanent posts were created;

† The question hour having been dispensed with, the answers to starred questions for this day were, in pursuance of convention, laid on the table of the House.—*E. of D.*

(f) if the reply to part (e) be in the affirmative, what are the reasons due to which the Accountant General, Bombay, has treated the persons promoted by him in his Office Order No. 13, dated the 16th July, 1925, differently and thus put them to progressive loss; and

(g) whether Government are prepared to instruct the Accountant General, Bombay, to revise his orders in those cases in which the officiating Divisional Accountants proceeded on leave with or without medical certificate during the interval between the creation of appointments and the date of promotion, *i.e.*, the 16th July, 1925?

The Honourable Sir Jeremy Raisman: The information is being obtained, and will be laid on the table of the House in due course.

LEAVE RULES FOR WAR ESTABLISHMENT EMPLOYED BY GOVERNMENT.

242. *Mr. M. Ghiasuddin: (a) Will the Honourable the Home Member be pleased to state if war establishment engaged by the Government of India (including the Supply Department) are subject to the same rules in the matter of leave as the permanent establishment? If so, what leave, if any, has been enjoyed by such establishment?

(b) What measures, if any, have been taken to stop the grant of leave to such personnel in view of the emergency of war?

The Honourable Sir Reginald Maxwell: (a) I understand the Honourable Member to refer to the personnel employed by the Government of India to deal with the increased work arising out of the war. No special leave rules have been framed for such staff. Those who are already in Government service are governed by the rules in force at the time of their appointment. Those specially recruited are governed by the Revised Leave Rules, 1933, which are reproduced in Appendix 7-A. of the Volume II of the Posts and Telegraphs Compilation of the Fundamental and Supplementary Rules.

(b) None. The Government of India do not consider that leave should be stopped entirely and propose to permit their officers to take leave within the limits consistent with the maintenance of efficient administration.

THE BUDGET FOR 1940-41.

The Honourable Sir Jeremy Raisman: (Finance Member), Sir, in presenting this my first budget, I am mindful of the proverb that no man is a prophet in his own country. Having spent the greater part of my adult life and the whole of my working career in India, I cannot hope to be credited with the unusual qualities which are often attributed to the newcomer, nor yet can I claim the indulgence which is often extended to the novice. I might perhaps have appealed for some measure of sympathy by reason of the special difficulties which have beset my first year, for to have to reckon with war, a few months after taking office, is a good deal worse than the normal lot of a Finance Member. But when I look round the world as it is today, and observe the formidable problems which confront those in charge of public finance in other countries, and not merely in countries at war but even in the less fortunate of the neutral countries, I can, at this stage, utter no such appeal. For whatever be the difficulties of the task to which I have had to address myself, they are greatly mitigated by the favourable economic conditions in which India has hitherto found herself in spite of, or rather I should say by reason of, the outbreak of war. In fact the story I have to tell relates mainly to a period in which a modestly improving rate of economic progress, restrained by fear of the consequences of an actual outbreak of war, was succeeded by what was almost a tide of war prosperity, subject to occasional setbacks from rumours of the possible supervention of peace. There is, no doubt, something repugnant to our human susceptibilities in these reactions of the 'economic man' to the tragic issues which are being fought out on the world stage at this moment, but it is my business to deal with facts and figures and the atmosphere of the market place, and we must console ourselves with the reflection that the full utilization of India's material resources is an important element in ensuring the victory of that cause on which alone rests the hope of our civilization.

The most effective index of Indian economic development during the first six months of the War is afforded by the price-levels of those staple export commodities, upon which the cash-income of the ryot so largely depends and variations in the prices of which, therefore, affect both the volume of employment and the buoyancy of the revenues, particularly of Provincial revenues. Taking the category of the chief articles of export as a whole, their prices today are some 40 per cent. higher than they were just before the war broke out, even when account is taken of the fall in jute and cotton prices which accompanied the recent deflation of speculation in these commodities. This rise in prices reflects, for the greater part, an increase in the demand for India's products abroad—in many cases a direct increase, in others an indirect increase, through additional calls upon India's manufacturing capacity for products of many kinds. I need only instance the impressive figures which the Department of Supply issues from time to time, relating to orders placed. Although such orders are to some extent in substitution of others, nevertheless, the expansion of war demands must exercise a beneficial influence both on raw material prices and upon industrial activity. As the new crops come on to the market, the higher prices realized will, of course, mean that industry will benefit from the larger money-incomes through increased purchases; these increase the general level of industrial employment, which, in its turn, increases the purchasing power of the urban population.

The primary impulse to the economic upswing now in progress is the foreign demand for India's products, but an investigation of the price situation as a whole shows that, except in one or two isolated cases, there are no notably divergent tendencies. The fact that there is no such marked difference in the trend of the prices of raw materials, of industrial commodities, of food, etc., is a welcome indication that the different branches of the national economy are moving forward in fair unison and that there is no need to fear, for the present at any rate, a lop-sided development with serious cleavages of interest. It is as well to remember, however, that the continuance of this situation depends upon continued command of the sea: without the ability to export freely, the present level of export prices could not be maintained. Up to the present, the development of overseas trade has been eminently satisfactory and the cessation of our trade with Germany has been more than neutralized by the expansion of trade elsewhere. In the first ten months of the present fiscal year the value of our exports of merchandise has amounted to Rs. 1,71 crores, an increase of Rs. 31 crores over the previous year. Imports have failed to rise to the same extent, and have amounted to a total of Rs. 1,34

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crores. Including transactions in treasure, the net result is that India's total visible favourable balance of trade has increased from Rs. 26·54 crores to Rs. 60·63 crores.

FINANCIAL YEAR, 1938-39

When history is moving at the speed at which it moves to-day, the record of a year which closed so long ago as last March must possess even less than the customary interest. I must, however, present it, and address myself herewith to a brief exposition of the financial results of the year 1938-39. In our revised estimates for that year we had expected to end with a deficit of Rs. 2,65 lakhs, but in the event this proved to be no more than Rs. 64 lakhs. This unexpectedly satisfactory result was due to an improvement of Rs. 1,51 lakhs in revenue and a reduction of Rs. 50 lakhs in expenditure.

On the revenue side the yield of Customs and Central Excise Duties improved considerably in the last months of the year, by 37 and 41 lakhs respectively, while Taxes on Income produced as much as Rs. 1,24 lakhs more than our revised estimate. Of this striking increase in Income-tax Rs. 56 lakhs were due to less refunds than estimated. Certain large claims were not completed during the year, and in other cases the sums due for Double Taxation Relief proved much lower than the amounts refunded in the previous year. But the main rise of Rs. 68 lakhs was due to increased collections of tax. I may add here that in view of the position disclosed by these large variations, the existing system has been re-examined and it has been decided to organise in the office of the Central Board of Revenue from the next financial year a special Statistical Branch. The assessment and collection returns sent in by the local officers have been revised and simplified so as to render them more useful for budget purposes and the returns will in future be received direct by the Statistical Branch and will be compiled by mechanical process. By this means figures of actual monthly collections will be available within a few days of the close of the month and this will make it easier to appraise more accurately the trend of income-tax revenues. At the same time, the opportunity has been taken to recast the form in which the annual Income-tax statistics are published, and to make them more intelligible and therefore more useful for general as well as for official purposes.

The main benefit of this increase in Income-tax receipts, as distinct from Corporation Tax receipts, accrued of course to the Provinces, and provided a set-off to the fall in the net contribution from the Railways. For reasons which have already been explained to the House, the Railway surplus proved to be Rs. 68 lakhs less than was anticipated. Thus while we had expected that Rs. 1,12 lakhs would be payable to the Provinces for 1938-39, the amount turned out to be Rs. 1,53 lakhs, in addition to which there were arrears of Rs. 38 lakhs due from 1937-38. As the sum distributed to the Provinces in March 1939 was Rs. 1,50 lakhs, there is thus left a balance of Rs. 41 lakhs to be paid to them along with their share for the current year.

FINANCIAL YEAR, 1939-40

That is all I have to say about the year which closed last March, and I now come to the current year 1939-40 which will close at the end of next month. Here our revised estimates show a net improvement of Rs. 5,08 lakhs in revenue, and a net deterioration of Rs. 4,20 lakhs in expenditure as compared with the budget estimates. Of this increase in expenditure Civil Estimates are responsible for only Rs. 10 lakhs, despite various extra charges of a civil nature which the war has imposed on us, and practically the whole of the additional expenditure involved has been on account of the Defence Services. Thus while the budget estimates provided for a nominal surplus of Rs. 3 lakhs, we now expect to end the year with a balance of Rs. 91 lakhs.

Revenue

I need hardly emphasize that the conditions under which the budget estimates of revenue were framed last year and which with slight modification persisted till the end of August underwent a striking change on the outbreak of war. Until then our revenue receipts were well up to expectation. But with the outbreak of war our Customs receipts, which are responsible for more than half our total revenue, registered a catastrophic fall, due to the interruption of trade with belligerent countries and the dislocation of shipping. This fall was shown with unmistakable clearness in the returns for October and November, but, fortunately, the sharpness of the drop has been mitigated to a considerable extent in the succeeding months. As compared with August 1939, imports dropped by 24 per cent. in September and 31 per cent. in October, but they revived appreciably in November and the more recent returns show that this recovery is being maintained, thanks to the steady improvement in shipping facilities brought about by the action of the allied Governments, and to the gradual adjustment of trade to the new conditions. In the result, if we exclude the effect of the duty on sugar, which was not strictly allocated between customs and excise, our revised estimate for Customs is Rs. 41 lakhs lower than the budget estimate instead of being well above it as seemed at one time probable. Against this adverse effect on our public finance we must of course set the great stimulus which war has given to the trade of the country. To this influence is due the increase of Rs. 65 lakhs under Salt, Rs. 21 lakhs under Currency and Mint, and Rs. 1,48 lakhs in the Railway surplus. At the same time Taxes on Income show a further rise of Rs. 81 lakhs on the improved actuals of the previous year, which serves to increase the share payable to the Provinces from the budgeted Rs. 1,78 lakhs to an anticipated Rs. 2,38 lakhs.

Customs and Central Excise Duties

Despite the fall in Customs already mentioned, the total receipts from Customs and Central Excise Duties combined are now expected to be Rs. 1,14 lakhs better than the budget estimate. This is mainly due to the variation in the receipts from sugar which is responsible both for the principal increase under Customs as well as for the main decrease under Excise. For the total revenue from both Excise and Customs duties on sugar, which at the time of the budget was estimated at Rs. 4,20 lakhs, had not been precisely apportioned between the two heads, the nominal figure of Rs. 4,00 lakhs being entered under Excise and Rs. 20 lakhs under Customs. In the event our forecast of this most variable source of revenue proved to be too low. With domestic production about 1,00,000 tons less than we reckoned, and imports correspondingly larger, the receipt from Customs duty is now put at Rs. 3,90 lakhs, while the Excise duty is expected to produce Rs. 2,00 lakhs by the end of this year.

If we exclude this head of revenue, which is always one of the most difficult to forecast, the Customs returns for the first six months of the year were running only slightly higher than the budget estimates, while the Excise returns omitting sugar showed only a slight decrease. I have already mentioned the striking change which occurred with the outbreak of war. All imports from

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Europe were adversely affected, and while certain supplies were restricted and delayed by the lack of shipping, others derived from belligerent countries were completely discontinued. The estimates for such articles as machinery, metals, paper and silk fabrics have thus had to be written down by between 30 and 40 per cent. for the remaining six months of the year. Other commodities, however, whose import is not affected by the war, have maintained their former levels or have actually recorded increases. Thus motor spirit and kerosene, mainly imported from Burma, continue to show their normal steady Improvement, while tobacco, spices and artificial silk show small increases.

The increase in the duty from silver from Rs. 33 lakhs to Rs. 1,55 lakhs deserves special mention. This is almost entirely due to the sales of Government silver from the Bombay Mint to meet the demands of the Indian bullion market. As is well known, the Government of India had been holding very large stocks of silver. These stocks could not be sold in the open market without forcing the price down to an extent which would have had a disastrous effect on the value of the holdings of silver in which the savings of the rural population had been extensively invested. When, however, on the outbreak of war an embargo was placed on the import of silver from non-sterling countries, and a marked rise in price took place in the London market, the position was entirely changed ; it has since been possible to sell about 65 million ounces of silver from our surplus stocks to meet requirements, which were mainly on Indian account. Measures have also been taken with the aim of stabilising the price at a reasonable figure. These sales not only satisfied the internal demand without recourse to appreciable imports from abroad, which would have involved an unnecessary expenditure of foreign exchange, but produced a large amount of ready cash, which though taken as a credit to capital, as will be explained later, has materially assisted our ways and means position. At the same time since the price charged for Mint silver included an amount equivalent to the import duty which is credited under the Customs head, these sales have also brought about a fortuitous increase of Rs. 1,22 lakhs in our Customs revenue.

The decline in the import of cotton fabrics of British manufacture appears to have been accentuated by war conditions, but there is a slight set-off in the increase recorded in the cotton fabrics imported from other countries. The drop in the proceeds of the jute export duty at a time of increased demand for raw jute and large orders for sandbags and other jute manufactures is mainly due to the shipping difficulty, though it is also clear that the very high prices previously in force had sharply restricted orders from abroad. However, with the recent decline in prices to more reasonable levels, orders from foreign countries may be expected to re-appear and on the assumption that sufficient freight space will become available in due course, next year's estimate of the export duty, and, consequently, of the shares paid to the Provinces concerned is put at the same figure as was adopted for the budget this year.

Under Central Excise Duties there is an addition of Rs. 8 lakhs on account of the cess levied on coal and coke which, though credited to revenue in the current year, has to be paid to the Coal Mines Stowing Board in the following year.

Taxes on Income

The new high level in the yield from Corporation Tax and Income-tax reached in the year 1938-39 and largely due to improvements in the administration has carried on into the current year and has been further augmented by increases due to the passing of the Income-tax Amendment Act. Our revised estimate for the total yield from all taxes on income, including Corporation

Tax and other elements entirely Central, is thus placed at Rs. 18,09 lakhs which is Rs. 81 lakhs more than the actuals for 1938-39 and Rs. 1,55 lakhs higher than the estimate of Rs. 16,54 lakhs adopted at the time of the last budget. As regards the amount payable to the Provinces, the pool of divisible income-tax has increased from Rs. 12,65 lakhs to Rs. 13,76 lakhs. But in place of the previous arrangement by which the Centre retained from the moiety, which is to be ultimately provincial, an amount sufficient to bring its own share *plus* the Railway surplus to Rs. 13 crores, the Order in Council has now been amended so that in each of the three years beginning with the current year the Centre is to retain from the provincial moiety the fixed amount of Rs. 4,50 lakhs, which is approximately what the Centre would have retained according to the budget estimate for the current year. The justification for this alteration in the Niemeyer formula is of course the complete change in the financial situation brought about by the war. The Centre has had to shoulder the entire burden of the increased expenditure on Defence and an appreciable amount of extra civil expenditure arising from the war, while there has been very little corresponding increase in provincial expenditure; at the same time the Centre's chief source of revenue, namely, the receipts from Customs duties, has been adversely affected. It would therefore have been anomalous if increased income-tax revenue, largely derived from these same war conditions, had accrued entirely to the Provinces, as it would have done under the old formula which also gave the Provinces the whole benefit from the increase in the Railway surplus. According to the revised formula now adopted the share of the Provinces on account of the current year will increase from the budget figure of Rs. 1,78 lakhs to Rs. 2,38 lakhs and with the arrears of Rs. 41 lakhs due for 1938-39, the amount for distribution to the Provinces at the end of March will become Rs. 2,79 lakhs.

Other Revenue Heads

There is an increase of Rs. 65 lakhs under Salt which is mainly due to the larger clearances effected by the salt dealers whose tendency is to increase their stocks in times such as these. Consumption, however, does not vary appreciably from year to year, so that any extra revenue obtained this year is likely to be off-set by a corresponding reduction in receipts next year. Under the head 'Mint' there is a gain of Rs. 33 lakhs due to the larger profits obtained from the circulation of small coin, the absorption of which has very rapidly increased in the last few months, but this is partly off-set by the decrease of Rs. 15 lakhs in the Government's share of the Reserve Bank's profits which are taken under the head 'Currency'. The net contribution from the State-owned Railways, which has in the last two years been a factor in the calculation of the Provinces' share of Income-tax, will, as already explained, now accrue in its entirety to the Central budget. There is an increase in the estimated surplus from Rs. 2,13 lakhs to Rs. 3,61 lakhs, which provides a welcome addition to our resources.

Posts and Telegraphs

The budget and revised estimates for the Posts and Telegraphs are as follows:

	Budget, 1939-40.	Revised, 1939-40.
	(In lakhs.)	
Gross Receipts	11,62	12,48
Working expenditure and interest charges .	11,63	11,62

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Although we had expected to close the year with a small deficit, the present indications are that we shall actually have a surplus of nearly Rs. 86 lakhs. Already in the earlier months of the year revenue was steadily on the up grade. But with the outbreak of war, almost all important classes of traffic showed abnormal increases, particularly telegraphs, and there was at the same time a rush on the telephone lines due to increased Government business and to activities in the share and money markets. The surplus now expected is thus almost wholly due to conditions in the earlier months of the year and it is gratifying that the Department expects to cope with this increased traffic—though sometimes under conditions of considerable difficulty—while keeping its expenditure within the sanctioned grant of the year.

Honourable Members are aware that with the commercialisation of the accounts of the Posts and Telegraphs Department the arrangement has been that the Department pays to general revenues interest on its losses and receives a rebate of interest on its profits. Under the existing arrangement, therefore, this surplus will accrue to general revenues, but as the losses incurred in previous years have now been paid back in full except for a final Rs. 7 lakhs, the net surplus of Rs. 79 lakhs will in effect form a reserve for the Posts and Telegraphs Department on which interest will have to be paid. To this extent the general taxpayer is obtaining immediate relief by incurring a future liability, a procedure which could of course not be extended indefinitely. It will be realized that as the present surplus is almost entirely due to the increased traffic resulting from the war, it must at this stage be regarded as of a transitory nature, and it would be unwise to base on it a policy of rapid expansion of the activities of the Department, or of reduction in existing rates.

Expenditure

Defence Services.—The outbreak of war has, as might be expected, seriously disturbed our estimates for the Defence Services and the task of estimating India's defence expenditure during 1939-40 has been rendered peculiarly difficult by the fact that it was not found possible, until very recently, to arrive at a settlement with His Majesty's Government regarding the principles to be followed for the purpose of allocating expenditure arising in India out of the war, between Indian revenues and the revenues of His Majesty's Government. Experience gained in dealing with a somewhat similar problem that arose in connection with the war of 1914—1918 showed the extreme importance of arriving at some broad basis of allocation which, while being fair to both parties, would obviate the serious accounting difficulties, prolonged controversies over questions of incidence, and delays in final adjustment, which arose during, and continued for many years after, that war. The circumstances of the present war differ in many respects from those of the last war, and the problem to which I have just referred has become a much more difficult one. One development that adds more than any other to its complexities has been the acceptance by His Majesty's Government and the Government of India shortly before the outbreak of war of the proposals of the Chatfield Committee for the modernisation of the Army in India, an event of the highest importance and significance from the point of view of the defence of India though overshadowed for the time being by the war. Those proposals have already been made public and for my present purpose it is only necessary to recall their two main financial features, namely, the arrangements for meeting the capital and recurring costs of the modernisation measures involved, and the conception of joint responsibility for the external defence of India underlying the whole scheme.

It will be recalled that the capital outlay on modernising the Army in India, estimated at Rs. 45,77 lakhs, was to have been provided by His Majesty's Government, three-fourths as a free gift to India and the balance of one-fourth as an advance to be repaid on easy terms. It was anticipated that the average net recurring cost of the Defence Services during the five-year period allotted for carrying out the proposals would not exceed the level of Defence expenditure obtaining immediately prior to modernisation because there would be substantial savings during the first two years which could be devoted to meeting excesses in the later years.

The outbreak of war necessitated a review of these calculations. The programme of modernisation had necessarily to be adapted to the needs of the situation which then arose, and the review of the programme which had to be undertaken on the outbreak of the war coupled with the rise in prices since the war resulted in a great increase in the capital and recurring cost of the scheme over that previously envisaged and in the disappearance of most of the savings that were expected to accrue during the earlier years of its execution. It was therefore clear that the terms of the original financial settlement which contemplated an ordered and balanced programme of modernisation extending over a period of years would inevitably require reconsideration. It will also be recalled that the Chatfield proposals postulated the acceptance by the Government of India of joint responsibility with His Majesty's Government for the external defence of India and in accordance with this principle provided for the earmarking of certain portions of the Defence Forces in India for purposes of external defence and a consequential increase of £500,000 in the amount of the annual grant made by His Majesty's Government towards the cost of maintaining the Defence Services in India in peace. It was stipulated that whenever circumstances should make it necessary to employ the whole or any portion of India's External Defence Forces outside Indian limits in the discharge of India's joint responsibility for her external defence, India should accept some share of the costs of doing so. In any settlement of the problem of incidence of war expenditure, therefore, this stipulation has to be borne in mind, since these External Defence Forces are now being employed overseas on duties connected with India's external defence. The position is further complicated by the fact that further troops other than those forming part of the External Defence Forces have been and will probably continue to be sent overseas and these troops generally speaking have to be replaced in India. In India itself heavy expenditure has also been incurred in mobilising to full production and in increasing the manufacturing capacity of our ordnance factories for the production of war stores of all kinds and in building up stocks. There is also a very substantial increase in our defence expenditure owing to the putting into force of various war measures, some of which, such as those relating to censorship, port and coastal defence, internment of enemy aliens, etc., are purely Indian liabilities, while others such as the expansion of various recruiting and training organisations, headquarters offices, etc., may be regarded as joint liabilities to be shared between the Indian and Imperial Governments.

In view of all these complicating factors it was felt that it would be quite impracticable to arrive at an accurate assessment of the defence expenditure chargeable to Indian revenues by a meticulous application of the principles laid down for the allocation of such expenditure between India and His Majesty's Government under peace conditions. Not only would such a course involve an immense amount of clerical work and consequent expenditure but it would revive all the difficulties experienced in connection with the accounts of the

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last war in an aggravated form. The matter has formed the subject of prolonged discussions with His Majesty's Government who shared our desire to simplify the arrangements and eliminate controversial elements to the utmost extent possible. An agreement on the subject has now been reached under which the whole of the defence expenditure incurred by India will be apportioned between the two Governments on the following basis. India is to bear—

(1) a fixed annual sum representing the normal net effective costs of the Army in India under peace conditions, *plus*

(2) an addition to allow for rises in prices, *plus*

(3) the cost of such war measures as can be regarded as purely Indian liabilities by reason of their having been undertaken by India in her own interests, and

(4) a lump sum payment of one crore of rupees towards the extra cost of maintaining India's External Defence Troops overseas.

The total amount by which the net annual defence expenditure incurred in India during the war years will exceed the aggregate of items (1) to (3) will be recovered from His Majesty's Government. The question of the disposal of surplus war stores has also been considered. During the war there will be accumulated considerable quantities of war stores of all descriptions which will be surplus to peace requirements when the war is over. The liquidation of these stocks will inevitably be attended with loss and it has been decided that the incidence of this loss should form the subject of negotiations between the two Governments after the war. In the meantime the whole cost of these surpluses is being met by His Majesty's Government. There remains a further element of defence expenditure to be considered, namely, that on non-effective charges for pensions and gratuities. The allocation of these charges is still under discussion between the two Governments. This settlement has been devised with two objects in view. The first object was to limit India's financial liability in connection with the war to such measures as are within her financial capacity and have clearly been or will be taken for the local defence of India itself, reckoning, of course, as such a measure the continued maintenance of the Army in India although only on its peace-time scale. The second object was simplicity, resulting in the avoidance of expense and dispute in the day-to-day application of the terms of the settlement in practice. Item (1) of the settlement has been evaluated at 36,77 lakhs, being the net budget estimate for our Defence Services in the year 1939-40, namely 45,18 lakhs after excluding from it non-effective charges of 8,41 lakhs which have been excluded from the settlement. I would emphasise that this item of 36,77 lakhs in the settlement is not an estimate of any specific expenditure on our Defence Services such as was the budget estimate of 45,18 lakhs for the year 1939-40 from which it is derived, but has now become a mere lump sum financial adjustment between the Government of India and His Majesty's Government fixed for the duration of the war. It is not a summation of details of estimated expenditure, and consequently in the budget as presented to the House no details are shown against it. The second item in the settlement is self-explanatory and will be arrived at by the application to the relevant figures of the normal budget, from which item (1) is derived, of percentages representing rises in prices from time to time worked out in consultation with the Economic Adviser to the Government of India. It is really part and parcel of the normal maintenance costs of the Army in

India but has been shown separately from item (1) for the sake of clarity because its amount is not fixed but will vary with variations in price levels. The third item, namely, those measures which we must pay for ourselves, will as far as possible be determined by direct accounting but where this presents serious difficulty, the amounts debitable to India will be assessed on the basis of estimates. I trust that the House will appreciate that the safety of the country may be endangered by the publication of too much detail concerning the measures included in this item or their cost. Nevertheless I realise that Honourable Members are entitled to such information concerning these measures as can be disclosed without divulging knowledge contrary to the public interest, but I hope that, bearing this qualification in mind, they will be satisfied with only a broad indication of their nature.

The measures are designed to place India in a state of preparedness against attack and are dictated by ordinary prudence. Thus, the Indian Territorial Force and Auxiliary Forces have been mobilised and are either already fulfilling their appointed rôle or are ready, at a moment's notice, to do so. Certain Indian State Forces have been called on either to undergo periods of refresher training or to take their appointed place in our defences. Certain miscellaneous units, not usually held in peace, but included in our mobilisation plans, have been formed and mobilised. The offer of His Highness the Maharaja of Nepal to place at our disposal a contingent of his troops largely at his own expense provides a valuable addition to our resources. It will be remembered that during the last war the Maharaja of Nepal also generously supplied a large contingent of trained regular troops which did admirable service in active operations on the Frontier. Training of all arms of the service has been expanded and intensified and additional training schools have been established. The censorship of mails has been put into effect and undesirable aliens have been placed in safe custody. Certain measures of port defence and of local Naval Defence have been taken and as the House is already aware, a Volunteer Auxiliary Air Force has been established. All these measures necessitate buildings for the accommodation of the additional forces and of stores, and expenditure on such works has been provided for. The payment represented by item (4) was included in the settlement in pursuance of the principle of India's joint responsibility for her external defence on which the Chatfield settlement was based. It must be remembered that His Majesty's Government, for their part, have agreed to continue to implement during the war, at greatly enhanced cost to them, the Chatfield programme for the modernisation of the Army of India. The payment towards the extra cost of the External Defence troops will be made in the current financial year. I trust that the House will agree with me that the settlement which has been reached is favourable to India and has been conceived by His Majesty's Government in a generous spirit. It is of course inevitable that India's Defence Budget should increase even though this country is not at the moment directly involved in active operations. Even a neutral country cannot escape the effect of rises in prices resulting from the war and must moreover in times like these take such precautionary measures as are within its means to safeguard its position by mobilising its resources both of men and materials where necessary. It is devoutly to be hoped that such measures as we have taken will prove in the event to have been unnecessary, but, of course, I cannot even hazard a guess at what the future has in store for us, nor at what further measures it may be found imperative for us to take. The settlement has been brought into force with effect from the 1st April, 1939, since its introduction in the middle of a financial year would have given rise to serious difficulties.

[Sir Jeremy Raisman.]

The revised estimates of Defence expenditure for 1939-40 framed on the basis of this settlement work up to Rs. 49,29 lakhs made up as follows :

	Rs. (In lakhs)
(1) Normal peace budget	36,77
(2) Effect of prices on (1)	25
(3) Indian war measures	3,86
(4) Non-effective charges	8,41
	49,29

The increase of 25 lakhs for non-effective charges is due to a change in the classification of Special Unemployed pay from effective to non-effective, which, in practice, will only be operative in the current year. The budget figure of Rs. 45,18 lakhs has thus undergone an increase of Rs. 4,11 lakhs, of which Rs. 35 lakhs is due to disturbances in Waziristan and the balance of Rs. 3,76 lakhs represents the effect of the war on India's defence budget during 1939-40. I have already given an indication of the broad details of this increase. The contribution of Rs. 1 crore, to which I have already referred, has been included as an Indian war measure as a matter of budgeting convenience.

Civil Estimates

With the increased co-ordination and control necessitated by the war, the activities of most of the Departments of the Central Government have expanded and Government has also had to undertake a number of fresh activities for which special controlling authorities have had to be created. The most important of these from the point of view of finance is the Department of Supply, which was set up immediately before the outbreak of hostilities for the development and speedy procurement of supplies essential for the prosecution of the war. Though not itself a purchasing organisation, the Department directs and co-ordinates the various purchasing organisations of the Government of India and is establishing an increasingly close contact with the Provincial Governments and Indian States. Its main purchasing agencies are the Indian Stores Department and the Contracts Directorate, the cost of whose war expansion is a charge against its budget, and it has associated with it a number of Liaison Officers and Advisers to Government for the various industries and trades concerned; these are rendering valuable services on a voluntary basis, receiving only their own travelling expenses and a small monthly grant for office staff and contingencies. In the first five months of its existence the Supply Department has received orders from His Majesty's Government, from France, Australia, New Zealand, South Africa, Egypt, Palestine and many other countries amounting in value to over Rs. 14 crores, the largest orders in addition to munitions and military equipment being for sandbags, blankets, cotton and leather goods, steel work, cement and other building materials. The expenditure on the entire organisation to deal with these orders is estimated at about Rs. 7½ lakhs in the current year, of which about half is on account of the two main purchasing agencies. But as a charge of three per cent. is levied on all supplies made to overseas authorities, including His Majesty's Government, it is expected that the expenditure will be covered by the fees realised on these orders which are shown as additional receipts in our revenue accounts. It has also been necessary to appoint a Controller of Enemy Firms and Custodian of Enemy Property, and to incur expenditure of about Rs. 2 lakhs in connection with interned enemy subjects.

Other emergency measures are the establishment of the Censorship organisation, the appointment of a Director General of Information and the formation of the War Transport Board to control and co-ordinate all forms of transport including shipping. In making these fresh appointments I can assure the House that considerations of economy were fully borne in mind and that the principle followed was that there should be no increase in pay merely on account of transfer to a war post and that a higher salary should only be sanctioned where the definite assumption of more responsible and arduous duties justified such extra remuneration.

The Government of India also became liable for a number of further items of war expenditure, for many of which they have had to make either payments to the Provinces for the work done by them, *e.g.*, in connection with foreigners and the censorship arrangements, or grants-in-aid for special purposes, such as Air Raid Precaution schemes. The total estimated cost of this special war expenditure borne by Civil Estimates comes to Rs. 16 lakhs for the current year.

A further appreciable item of fresh expenditure this year has been the cost of the famine relief measures undertaken in Ajmer-Merwara and Delhi. Owing to the failure of three successive monsoons, relief works had to be started in Ajmer-Merwara last August and the number of workers employed increased each month till it reached the figure of 200,000 in January. The wages to be disbursed to the labourers then amounted to Rs. 6 lakhs a month. To deal effectively with expenditure of this scale it became necessary to create a separate Famine Division. With nearly 40 charges to be organised and with the distressed population swelled by large numbers of labourers and their dependents from the neighbouring States, the cost is likely to be not less than Rs. 16 lakhs this year.

Under charges for Interest we now expect a welcome reduction of Rs. 39 lakhs as compared with the budget estimate for the current year. This is mainly due to the saving of Rs. 34 lakhs effected by the conversion operations carried out in the current year and to the further reduction of Rs. 48 lakhs in the amount of bonus paid on Post Office Cash Certificates due to the lower rates of interest carried by the certificates now being presented for encashment. Against these reductions there has been an increase of Rs. 33 lakhs in the discount on Treasury Bills ; for there was a larger gap between revenue and expenditure to be filled by temporary borrowing at the beginning of the war and somewhat higher rates of interest have also been in force.

Thus, our Revised Civil Estimates for the current year are expected to amount to Rs. 37,56 lakhs, as compared with the Budget estimate of Rs. 37,46 lakhs. With the net Defence Expenditure placed at Rs. 49,29 lakhs, our total expenditure is estimated at Rs. 86,85 lakhs as against our total revenue of Rs. 87,76 lakhs. We therefore expect to end this year with a surplus of Rs. 91 lakhs, the result of increased contributions from the Railways and the Posts and Telegraphs. In the ordinary course this surplus would have constituted an automatic addition to the provision for the avoidance or reduction of debt, but in view of the special difficulties of the forthcoming year I shall ask the House to transfer the surplus of the current year to a Revenue Reserve Fund. It will thus be available to help out the finances of 1940-41.

FINANCIAL YEAR, 1940-41

I now come to the financial year, 1940-41. Our total revenue estimates amount to Rs. 85,43 lakhs as compared to Rs. 87,76 lakhs in the revised estimates of this year. This includes the greatly increased sum of Rs. 5,31 lakhs

[Sir Jeremy Raisman.]

which the Railways are expected to contribute to general revenues next year under the operation of the Railway Convention. As Honourable Members will recollect from the speech of the Railway Member, this amount is based on the full contribution of Rs. 4,41 lakhs for next year, which is one per cent. of the capital at charge less the loss on strategic railways, *plus* the arrears of contribution amounting to Rs. 90 lakhs from the current year.

Revenue

Customs and Central Excise Duties.—Next year's budget estimate for Customs and Excise combined is Rs. 46,00 lakhs against the current year's revised of Rs. 50,07 lakhs, a decrease of Rs. 4,07 lakhs. There is first of all a reduction of Rs. 90 lakhs in the yield from the duty on sugar due to the larger anticipated production of indigenous sugar and a consequent decrease in the probable imports from abroad. Then we have to exclude the additional customs revenue from silver to the extent of Rs. 1,20 lakhs over and above the average receipts on this account which must be treated as a windfall this year. For the rest we have had to allow for the continuance of the shortfall which averages about 20 to 25 per cent. in those goods, the imports of which have been seriously interfered with by the war. While many of the heads of Customs revenue remain unaffected, about half have suffered decreases of varying extent. The reductions from this cause over a full year are responsible for the remaining drop of Rs. 1,97 lakhs as compared with the revised estimates for the current year, the first six months of which was a period of increasing trade and large imports.

The forecasting of the Customs revenue, with which the revenue from Central Excises is inseparably connected, involves a view of the course of our foreign trade for a period extending to more than a year ahead, and is at all times a matter of great difficulty. Usually the best that the estimator can do is to base his calculation on the assumed continuance of the tendencies already visible, and to take into account any additional factors of the probable emergence of which he has reasonably reliable knowledge. It is obvious that in the circumstances of the war the task is rendered even more difficult by major uncertainties of a kind unparalleled in peace. It is not merely that our Customs revenue is dependent entirely on the maintenance of the shipping position and that even a partial diversion of freight may interfere seriously with the scale of our imports. It has also to be borne in mind that in the interests of the successful conduct of the war, which is a paramount consideration, it may be found necessary to restrict certain classes of imports, though this may have an adverse effect on our Customs receipts. In the light of these considerations the present estimates, which allow a margin of less than two crores for the factors of deterioration arising from the progress of the war, can certainly not be said to err on the side of pessimism. They take full account of the improved returns of the last two months, but for which it would have been unjustifiable to adopt so favourable a view.

Taxes on Income.—Our revised estimate for the total yield from all taxes on income for the current year which has been placed at Rs. 18,09 lakhs, is based on the conditions of the preceding year, the latter months of which showed an improvement in trade activity. This was maintained during the first half of this year, while the succeeding months since the outbreak of war have, as I have already mentioned, seen a trade boom of considerable dimensions. There can be little doubt that the incomes on which next year's assessments will be made will be appreciably larger. On this account we have raised the estimate of the yield from all taxes on income by a further Rs. 1,41 lakhs to give a total for both Income-tax and Corporation Tax of Rs. 19,50 lakhs. Of this increase Rs. 1,24 lakhs goes to swell the divisible pool of Income-tax so that the share of the Provinces is expected to reach the figure of Rs. 3,00 lakhs next year as compared with Rs. 2,38 lakhs this year.

Other Revenue Heads.—There is a large decrease of Rs. 80 lakhs under Salt as compared with the Revised. This is based on the view that the exceptionally large clearances that are being effected this year will result in larger stocks than usual being carried on into next year when the demand for fresh supplies from the salt works will be correspondingly reduced. Under Mint there is a further increase of Rs. 10 lakhs from the anticipated absorption of small coin, and the estimate under Currency includes an additional Rs. 20 lakhs from the Government's share of the profits of the Reserve Bank.

Posts and Telegraphs.—For the next year the revenue of the Posts and Telegraphs Department is expected to be Rs. 12,35 lakhs and expenditure Rs. 11,98 lakhs. The first rush of war traffic having passed, revenue is expected to be somewhat smaller than in the current year. The restrictions imposed in the earlier months of the war on foreign code telegrams have been withdrawn and the estimate allows generally for more settled trade conditions. These considerations justify a somewhat lower forecast than in the current year. The estimated expenditure is about Rs. 40 lakhs more than in the current year. The main reasons for this are increases in staff to deal with increased traffic, the extension of postal facilities in rural and urban areas and the decision to raise the limits for petty works of a capital nature debited to revenue. The Department has, during the last few years, been making a substantial effort to extend postal facilities in rural and urban areas; and in the year 1940-41 it will on this account be spending over 19 lakhs more than in the year 1936-37. The number of new post offices opened during the three years ending with 1938-39 is nearly 2,200 of which more than 2,000 are in rural areas. The low limits for petty works of a capital nature, the expenditure on which is met out of revenue, attracted the attention of the Public Accounts Committee. After a careful review of the position, it has now been decided to raise these limits which, in most cases, were excessively low. The increased charge to revenue is justified by the avoidance of numerous petty additions to capital account and by the consequent reduction of interest and depreciation charges.

Expenditure

Defence Services.—The Defence Budget for 1940-41 worked out on the basis of the settlement with His Majesty's Government which I have already explained amounts to Rs. 53,52 lakhs made up of the following elements:

	Rs. (In lakhs)
(1) Basic normal budget	36,77
(2) Effect of rise in prices on item (1)	2,00
(3) India's war measures	6,59
(4) Non-effective charges	8,16
	53,52

The normal provision for non-effective charges has been repeated. The substantial increase in the amount provided on account of rise in prices as compared with the figure shown in the Revised Estimates is explained by the fact that most of the contracts for stores required by the

[Sir Jeremy Raisman.]

Defence Services for 1939-40 were placed before the outbreak of war and were therefore unaffected by the subsequent rises in prices, whereas in 1940-41 the full effect of those rises will be felt. Excluding a sum of Rs. 20 lakhs included in item (3) on account of Waziristan the balance of the amounts shown against items (2) and (3) representing the total extra expenditure which will be thrown on the Defence estimates payable by India as a result of the war is Rs. 8,39 lakhs. The main details of this increase will be found under Head 4 of the budget estimates and I have already referred to them. I would remind the House that His Majesty's Government are spending on measures directly connected with the Defence of India sums greatly in excess of this, but I am not for obvious reasons able to disclose either the nature of the measures or the amounts involved. I must make it clear that the Defence Budget under Head 4, namely, those measures which will be charged to Indian revenues provides for only such measures as can now be foreseen. It will be realised that as the year progresses new measures of this category will most probably have to be initiated of the nature of which we have at present no knowledge, and the additional cost of which to Indian revenues may be considerable. I had considered the desirability of making some lump sum provision for such unknown charges but as I cannot prophesy the course of the war, and as there is no sort of basis on which any figure at all can be arrived at, I decided that there was nothing to be gained by attempting to make specific provision for such liabilities.

Civil Estimates

Despite the exclusion of all new proposals that could not be regarded as virtually unavoidable at the present time, our civil expenditure estimates show increases amounting to Rs. 1,51 lakhs in all as compared with the current year's revised estimates. I must now explain the major items that have contributed to this result.

There are first certain increases of an automatic nature which are either obligatory or are counterbalanced by increased credits on the revenue side. Thus the allocation to the Road Fund has had to be raised by Rs. 12 lakhs on the basis of the revenues obtained from the duties on motor spirit, which this year are expected to be higher. Then, an additional Rs. 8 lakhs on account of the Coal Cess credited to revenue this year has to be provided under Central Excise Duties for payment to the Coal Mines Stowing Board next year. The much larger demand for small coin, which is expected to produce the substantial profit for Government shown in the revenue estimates, is responsible for an increase of Rs. 7 lakhs in the expenses of the Mints and the larger demand for bank notes, which is also a feature of the present expansion in trade activity, has caused an increase of Rs. 13 lakhs in the expenditure of the Currency Note Press. The rise in prices together with the necessity of increasing stocks to a level considered adequate in time of war is again responsible for the additional expenditure of Rs. 4 lakhs under Stamps. There is also, unfortunately, little hope of the famine conditions in Ajmer-Merwara coming to an end before the arrival of the monsoon and a further sum of Rs. 16 lakhs has to be provided for the continuance of the present relief works into next year.

The special civil expenditure in connection with the war already mentioned will in a full year amount to Rs. 37 lakhs as compared with Rs. 16 lakhs this year. It has, however, to be remembered that of this sum the expenditure on the Department of Supply will account for Rs. 23 lakhs, against which has to be set off the Rs. 20 lakhs of revenue which it is estimated will be realised from fees.

At the same time it has become necessary to restore the full provision for the maintenance and repair of civil works which was severely cut in each of the two previous years as a part of the economy campaign. For it has been found that if we were to continue to restrict this expenditure to the reduced amounts made available in the last two years, it would be impossible to maintain these Government assets at a proper standard ; as the resultant deterioration would only necessitate a much greater outlay at a later date, the achievement of some temporary saving by this means would be false economy. The provision for maintenance has therefore had to be increased by Rs. 15 lakhs. Certain works in progress such as the new Custom House at Calcutta have had to be completed and a number of urgent projects, which had been postponed from earlier years, could be delayed no longer. On both these accounts the provision for Civil Works had had to be raised by Rs. 21 lakhs. The programme of civil reconstruction for Quetta, originally fixed at Rs. 25 lakhs a year, had also been drastically curtailed in recent years owing to the economy campaign, so that it had dropped far behind the military programme and to make up some of this leeway it has been necessary to increase next year's grant from Rs. 14 lakhs to Rs. 20 lakhs.

As regards new schemes, the general principle adopted was that all forms of avoidable expenditure should be eliminated but that expenditure, which, on a broad view, would assist in the mobilisation of the economic resources of the country and further the successful prosecution of the war should not be rejected. At the same time it was not considered desirable to restrict the grants to the development departments to an extent which would have crippled their beneficient functions and in a number of cases, the natural expansion of their activities has made the provision of additional funds essential.

Thus there is the important expansion in civil aviation for which we are providing an additional Rs. 25 lakhs about which I should like to say a few words. Honourable Members will recollect that in 1935-36 a Fund of about Rs. 93 lakhs for the development of civil aviation was created out of the revenue surplus of the previous year. Since then capital expenditure on civil aviation projects has been financed out of this Fund which at the end of the current year will have an unspent balance of about Rs. 4 lakhs. With the progress that is being made in civil aviation the need for bringing the organisation connected with the trans-continental traffic as well as with the inland routes up to modern requirements has become imperative. Owing to our limited resources, development has in the past been restricted to the essential minimum. We must, however, continue to provide facilities and conform to international standards. Though it is not possible with our existing resources to divert a large sum for the purpose, it has been decided that the Civil Aviation Capital Fund shall continue to be maintained ; but instead of a lump sum contribution, it is proposed to contribute to it a sum of Rs. 25 lakhs each year for the next seven years. This will enable the Civil Aviation Department to carry out the long-term programme which it has in view.

I need hardly stress the fact that the justification for undertaking a large programme of Civil Aviation Works in time of war is closely bound up with defence. The Air Force in India must have their own aerodromes for the permanent accommodation of their squadrons and depots, but away from their permanent bases they must have an organisation of aerodromes, wireless stations, meteorological stations, etc., to enable them to move to and operate in any part of India. The development of civil aviation also depends on the prior provision of such an organisation, and it needs little demonstration that one organisation can and should serve both purposes.

[Sir Jeremy Raisman.]

That has been the policy and practice in this country. Since the development of civil aviation began, the Royal Air Force has depended largely on the civil aerodrome organisation for all its casual operations. The war has intensified the demand. With the rapid development of high speed aircraft, many of our aerodromes even now are not suitable for the operation of the types of Service and civil aircraft in use. Large parts of the country cannot be reached at all by air. This is a situation which must be remedied—in war for defence purposes and after the war for the development of commercial aviation. A good civil organisation will meet the needs of the Air Forces, but the reverse is not true. Government have therefore decided to meet the emergent demands of defence while planning the works as an asset in the development of civil aviation after the war.

In regard to Delhi University, Government were under an obligation which they had accepted some years back and which could not be postponed indefinitely to assist a scheme for its development as an All-India University. On the basis of a programme drawn up by the Vice-Chancellor, Sir Maurice Gwyer, Government have decided to make a non-recurring grant of Rs. 8 lakhs spread over a period of five years and to increase the recurring grant to the University by Rs. 25,000 a year rising to a maximum of Rs. 1 lakh in the fourth year. Half of the non-recurring grant will be used to assist the constituent colleges to move to the University site and the remainder of the money will allow a start to be made on the re-organisation of the University by the provision of science laboratories, a library and research scholarships and the establishment of a number of Professorial Chairs and Readerships. This will involve an additional grant of Rs. 2¼ lakhs next year.

The Government of India have also agreed to take over from the beginning of the next financial year the Public Health Section of the Malaria Institute which is controlling the anti-malaria works round Delhi Province as well as advising Provinces and Indian States on malaria problems. This was formerly financed from the funds of the Indian Research Fund Association and the transfer will involve an additional commitment of Rs. 1 lakh. With the opening of the two new stations at Dacca and Trichinopoly and the expansion of their news broadcasts on account of the war, All-India Radio has required an additional Rs. 4 lakhs. But they must also be given credit for the fact that there has been a large increase in the number of wireless licenses. Against about 72,000 licenses in March, 1939, it is expected that there will be at least 100,000 licenses next year.

Finally the Decennial Census, in continuance of the series which has been maintained since 1872, is due to be held in 1941, and it has been decided that to avoid any interruption of the statistics which are so vital for many purposes the primary work of enumeration shall be undertaken at the due time. This will involve an expenditure of Rs. 12½ lakhs next year. The question of undertaking the more substantial task of compilation is to be decided at a later date.

SUMMARY

In this way the expenditure detailed in the civil estimates comes to the figure of Rs. 39,07 lakhs, as compared with Rs. 37,56 lakhs for the current year. With the provision for the Defence Services placed at Rs. 53,52 lakhs, our total expenditure estimates amount to Rs. 92,59 lakhs. At the same time, on the basis of existing taxation together with the increase in the Railway contribution to the full figure of Rs. 4,41 lakhs *plus* in addition a special sum of Rs. 90 lakhs as arrears for the current year, our total revenue is estimated at Rs. 85,43 lakhs. The figures are, therefore :

	(Lakhs)
Revenue	85,43
Expenditure	92,59
Prospective deficit	7,16

WAYS AND MEANS

Before I proceed to explain my proposals for dealing with this deficit, I must turn aside to give a brief account of our ways and means position.

New Loan.—The outstanding balance of the five per cent. Loan 1939—44 which we had the option of redeeming this year, was notified for discharge early in the year and in July the Government of India floated a further combined cash and conversion issue of the three per cent. Loan 1963—65. The issue was made at a price of Rs. 98 and the five per cent. Loan 1939—44 and the five per cent. Loan 1940—43 were accepted in conversion. The total subscriptions applied for and allotted amounted to Rs. 15,72 lakhs, of which Rs. 8,24 lakhs represented conversions of the five per cent. Loan 1939—44 ; the discharge of the remaining balance of the 5 per cent. Loan 1939—44 was duly effected by an increase in our temporary borrowing. Next year we have the option of redeeming the remainder of the five per cent. Loan 1940—43, the outstanding balance of which is a little under Rs. 19½ crores. The time and manner of the redemption will of course depend on market conditions and our ways and means position.

Sterling Position.—With the great improvement in the balance of trade that has taken place during the year, the Reserve Bank has made considerable purchases of sterling, the total for the first ten months aggregating approximately £53 millions. This may be compared with the figure of £12½ millions for the corresponding period of last year and £15 and £41 millions in those of the two previous years. With the repayment of foreign debt, which we have been effecting continuously for some time past our sterling requirements are naturally decreasing year by year. Moreover, in the current year the amount of sterling we require has been still further reduced by special circumstances. Large purchases of raw materials and goods made in India on behalf of His Majesty's Government have been paid for by us in the first instance and we have been recouped by payment of sterling into our account in London. We have also had large sterling receipts on account of recoveries from His Majesty's Government for their share of the war expenditure incurred by India as well as for their contribution towards the expenditure on defence modernisation in accordance with the report of the Chatfield Committee. Again the sales of Indian Government silver which were formerly arranged through the London market, where we had an organisation that had been selling silver for us since 1927, resulted in nearly £8 millions being paid to us in sterling. Our net sterling requirements are therefore now estimated at no more than £10¼ millions in the current year and £11¼ millions next year, as against the budget estimate of £27 millions and an average of £38 millions required in each of the three previous years.

Repatriation of Sterling Debt.—In addition to expanding their currency

6 P.M. reserves, the large acquisitions of sterling already mentioned have enabled the Reserve Bank to put considerable amounts at our

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disposal for the repatriation of our sterling debt. The desirability of repatriating sterling debt has been constantly before Government and the Reserve Bank for the last three years. A beginning was made in 1937 but it had to be temporarily discontinued owing to the slackening of our remittances. However in this period we have been able completely to liquidate our liabilities on account of the Family Pension Funds transferred to England to the amount of £9¼ millions. We have now first of all taken the opportunity provided by the availability of sterling to reopen the former scheme by which the Reserve Bank is authorised to purchase our sterling non-terminable securities in the open market as amounts become available and to transfer the securities so purchased to us for cancellation. In their place additional rupee paper of the 3½ per cent. and 3 per cent. non-terminable loans is created up to the same nominal value, which is issued gradually by the Reserve Bank in accordance with the requirements of the market. Throughout the period of these operations the market price of 3½ per cent. rupee paper has consistently shown a steady rise, and it is clear that the additional rupee securities thus created to finance this debt repatriation have served to supply an actual need of investing institutions and have not been in excess of the demand. Also since the average sale price has been higher than the average purchase price of the sterling stock in London, we have made an appreciable saving on the transfer which, as before, is being taken not to revenue but to capital as a small additional contribution towards the redemption of debt. A further scheme for the repatriation of sterling which has just been brought into force extends the option of transfer to rupee loans to holders of all our sterling loans. The Reserve Bank is being authorised to open books for rupee counterparts of our sterling loans and transfers will be allowed on payment of a premium which will be fixed from time to time according to the market rates with a small margin where possible in favour of the transferor. In order to introduce these new loans to the market Government at first will issue them on its own account in conversion of sterling securities purchased by it. Thereafter, from the 1st April next these facilities will be open to the public on terms based on the sterling and rupee market prices of the respective loans which will be announced by the Reserve Bank from time to time. By this means we hope to bring about an appreciable substitution of rupee liabilities to residents in India in place of sterling liabilities to non-residents, which will be a valuable relief to our remittance programme in future. So far the total value of sterling securities acquired for the purpose of debt repatriation is approximately £9 millions and this should be considerably augmented in the coming year.

Treasury Bills.—In the current year we had originally expected to be able to effect a reduction of six crores in the value of treasury bills outstanding. Actually it is probable that by the end of the year treasury bills will have been expanded by one crore to leave an outstanding balance of a little over 47 crores. This is mainly due to the larger expenditure that has had to be financed on account of the war and to the restriction which the uncertainties of the international situation imposed on the scale of our loan operations this year. The expansion would, however, have been considerably larger but for the sales of Government silver to the amount of about Rs. 11 crores, the proceeds of which have gone to reduce very considerably the outstanding balance of the silver debt which at the beginning of this year stood at approximately Rs. 48 crores. Next year after providing for a further payment of five crores to the Reserve Bank against surplus rupee coin returned by them, we expect to be able to reduce outstanding treasury bills by approximately eight crores. During the last few years there has been a steady return of rupee coin from circulation, but with the increased demand for currency that has now arisen, the process has been reversed and the balance of rupee coin held in the Issue Department of the Reserve Bank has dropped from Rs. 76 crores on the 8th September, 1939 to a little over Rs. 59 crores in the Bank's return of the 9th February. If the outflow of rupee coin continues at the same rate the Reserve Bank may not wish to exercise its option to return a further five crores of rupees on April 1st and if they desire not to do so the ways and means position will be easier to the extent of five crores.

Post Office Cash Certificates and Savings Bank.—The revised ways and means estimates allow for a net repayment of Rs. 2,63 lakhs in respect of cash certificates as compared with the budget estimate of Rs. 50 lakhs, while under Postal Savings Bank deposits we are reckoning on a net cash outgo of about 5½ crores against the estimated receipt of Rs. 3,75 lakhs in the budget. This deterioration in respect of both Cash Certificates and Savings Bank deposits is mainly due to the larger withdrawals which were made in September and October. There was, however, no such panic as that which took place at the outbreak of the last war, when 40 per cent. of the deposits in the Post Office Savings Bank were withdrawn between August and December, 1914, and did not begin to return till after March, 1915. On this occasion the total withdrawals during the first three months amounted to no more than six per cent. and these were mainly due to the larger demand for cash for trade purposes. Since then there has been a noticeable improvement in the position and withdrawals have dropped to a very small figure. Accordingly for next year our estimates provide for a net repayment of Rs. 1,50 lakhs under Cash Certificates and an increase of Rs. 2,00 lakhs in cash in Post Office Savings Bank deposits.

I must now return to the task of supplementing the revenues of the coming financial year to the amount of Rs. 7,16 lakhs which is required to balance our expenditure.

In the first place we are fortunate in the fact that the current year should leave us with a surplus of Rs. 91 lakhs in our Revenue Reserve Fund, which we may apply to the reduction of the gap to be filled by fresh taxation. The existence of this surplus is entirely due to the larger contributions received from the two great commercial departments of the State, the Railways and the Posts and Telegraphs. These same departments are also responsible for a large reduction in the size of the deficit which would otherwise face us in the coming year. To this extent the community, in its aspect of a customer of the commercial departments, may be said to have come to the assistance of the community in its rôle of general taxpayer. This feature of the situation is, however, by no means without its drawbacks. It is in times of comparative prosperity such as this that the commercial departments would wish to utilize their surpluses to a large extent in the building up of reserves, so that when recession comes and general revenues are hard hit, they can meet losses from their own invested savings, without adding a further burden to the general taxpayer. Whilst therefore we yield for the moment to the compulsion which the necessities of war apply, we must bear continually in mind the problems which await us in the future, and refrain so far as we can from exhausting those resources on which we shall then desire to draw.

This brings me to the question of direct taxation and the Excess Profits Tax which is already before the House. I am not unmindful of the bearing which the remarks which I have just uttered have on the conduct of private, no less than of State-owned, businesses. But I believe that the Bill provides a reasonable compromise between the conflicting claims of the present and the

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future, and I should be happy if we were in a position to treat our own commercial departments no more ungenerously in this matter than private enterprise.

I must now indicate what portion of the remaining gap of Rs. 6,25 lakhs the yield of the Excess Profits Tax can be estimated to cover in 1940-41. This figure can only be estimated in the roughest way. Any attempt at precise calculation is rendered impossible not only by the difficulty of evaluating the scale of profits in war-time, but by the fact that the basis with which they are to be compared must vary with the option of the numerous individual assessees to choose their standard periods. Moreover the portion of excess profits actually brought under assessment in the course of the coming year will in the ordinary way be dependent on the dates on which the normal accounting periods of the businesses affected terminate and the dates by which the assessments can be completed. Finally, as the machinery for administering the tax has yet to be brought into being, the work of assessment cannot begin till many months of the year have passed. Taking all the relevant factors into account, and applying to this highly indeterminate matter the best judgment which we can, we have decided to place the estimated yield in 1940-41 at a net additional Rs. 3,00 lakhs, after allowing for the effect on income-tax and supertax. As I explained in the House a few days ago, the tax in its application to companies falls under the head of corporation tax, which is a purely Central source of revenue. In its application to other assessees it ranks as a tax on income and the yield is included in the pool of income-tax revenue to be shared between the Centre and the Provinces. One half of the revenue from the tax on assessees other than companies will thus accrue to the Provinces. But since the amount of excess profits paid is deducted from the income assessable to income-tax and supertax, there will be a reduction in the yield of these latter taxes. It is estimated that the effect of this reduction on the provincial share of income-tax will so nearly counterbalance the accrual of a share of the excess profits tax as to leave a negligible net result, and the provision for distribution to the provinces accordingly remains unchanged.

As I pointed out in my speech on the motion to refer the Excess Profits Tax Bill to a Select Committee, the principle underlying the measure is that in raising the additional revenue necessary to meet the cost of war measures, recourse should first be had to the taxation of those to whom the war has brought additional profits. This is a principle of priority of taxation, which cannot be impugned. But I am still left with a gap of Rs. 3,25 lakhs, for which I must turn to the general taxpayer. If any part of this sum were to be found by an ordinary increase of income-tax, it would be necessary to raise an amount equal to double the Centre's requirements, for half would accrue to the Provinces. Since the present emergency is one which arises from the effect of war on the revenue and expenditure of the Centre, this would hardly be appropriate. It is true that the Constitution provides for the levy of a Central surcharge on income-tax, the whole proceeds of which shall accrue to Central revenues; it is, however, clear from the Act that such a surcharge should be resorted to after and not before other practicable means of balancing the budget have been explored. I must therefore for the time being abandon my pursuit of the income-tax payer, on whom so much attention was concentrated a year ago, when the upper reaches of the scale of tax were sharply steepened. To those in receipt of fixed incomes, the war has no doubt brought an increase in the cost of living and a surcharge, particularly in the lower ranges of incomes, would add to their hardships. I cannot, however, guarantee that further demands from the direct taxpayer may not have to be made in the future, and the conditions in which he is liable to be called upon may even arise in the course of the coming year. For the time being, however, I propose to leave the rates of income-tax and super-tax unchanged, except for one minor alteration giving relief in respect of super-tax to Co-operative Societies in accordance with an undertaking given by my predecessor in the course of the discussion on the Income-tax Amendment Bill in the Council of State. Accordingly, I now turn my attention to the field of indirect taxation.

Now to the extent that our problem is caused by the inadequacy and precariousness of the customs revenue in time of war, it is the consumers of those classes of imports which cannot now be obtained who will have ceased to make the corresponding contribution to the revenue. To this extent the gap can justifiably be filled by additional indirect taxation, though having regard to the regressive character of such taxation, it is desirable to aim at taxes which bear least oppressively on the poorest classes of consumers. I regard the tax on factory refined sugar as answering most nearly to this requirement, for white sugar is mainly consumed not by the poorest but rather by the middle and upper classes of the population. I propose therefore to increase the excise duty on sugar, from Rs. 2 to Rs. 3 a cwt. Under the Customs tariff schedule, as it now stands, this change will produce an automatic increase in the import duty by a like amount. I may also mention that the sugar-producing Indian States are being approached with a view to bringing them into line with British India and securing that the enhanced excise duty is also levied on their output. I estimate the additional revenue from the increase in the sugar excise, together with the corresponding increase in the import duty, at Rs. 1,90 lakhs.

My other proposal is to increase the duty on motor spirit from 10 annas to 12 annas a gallon. The imposition of this additional burden on all users of motor transport will no doubt evoke protests, but they may regard themselves as fortunate that the war has hitherto involved no more serious handicap on the private consumption of this commodity. Incidentally the effect on the competitive position of road transport is counterbalanced by the increase in railway rates which will now be in force. I estimate the additional revenue from this increase of 2 annas a gallon at Rs. 1,40 lakhs.

Both these changes are to take effect forthwith and a declaration under the Provisional Collection of Taxes Act has been attached to the relevant clauses of the Finance Bill.

With Rs. 91 lakhs from the Revenue Reserve Fund, Rs. 3,00 lakhs from the Excess Profits Tax and Rs. 3,30 lakhs from the enhanced duties on sugar and petrol, our final figures become :—

	Rs. (In lakhs.)
Revenue	92,64
Expenditure	92,59
Surplus	5

I have now laid my proposals before the House, but before I sit down I would ask Honourable Members to bear with me a little longer whilst I describe the background against which I consider that these proposals should be judged. The war has been in progress now for barely six months and no man can say what the coming year has in store for us. I am not one of those who believe that this is going to be a short war, but clearly if it should so turn out many plans and calculations will have to be revised. For the moment we face a

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situation in which the probabilities are heavily weighted on the side of additional expenditure on the defence of India whilst at the same time many sinister contingencies also threaten our revenues. It has no doubt been possible at this particular juncture of time to base a fairly encouraging view on our actual recent experience, but the plain fact which we have to recognise is that all changes in our position are more likely to be for the worse than for the better.

In these circumstances what is the best course to pursue in the largest interests of the country? There are times when economic prosperity in the country is accompanied by buoyant Government revenues and taxable capacity far exceeds the contemporary requirements of public finance. There are other phases in the trade cycle when economic depression is accompanied by a dislocation of public finance and when the Government can only help itself by aggravating the private difficulties of the taxpayer. The view is rapidly gaining ground that budgetary finance should not be too closely circumscribed within the water-tight compartments of single successive years and that in a period of prosperity, instead of allowing the whole of the surplus of the national income "to fructify in the pockets of the people" the Government should draw on it to an extent which will enable it to bear less heavily on the country in a period of depression. There is obviously great force in this view, but the present situation in India is one which corresponds to neither of the commoner phases which I have just described. It is a situation in which, while the Government is inevitably involved in large and growing expenditure on defence, the community as a whole may be said to be enjoying a period of prosperity. Now whatever the view which one may hold on the subject of budgeting for a year at a time or budgeting for a longer period more nearly corresponding to a trade cycle, there can, I hold, be no question that in the circumstances of India today the additional requirements of Government should clearly be met by drawing on the additional taxable capacity which the war has produced. It would in my opinion be indefensible in circumstances such as these to postpone for the future any part of the burden which can more easily be shouldered today. That future, judging by historical precedent, will inevitably produce for us problems and difficulties far more harassing than those with which we are now called upon to deal. If we can do anything at this moment to lighten the immense burden of our successors it is our bounden duty to do it; the least they will be entitled to expect is that when we have the power and the means to do it we should refrain from handing on to them a disastrous legacy. We cannot isolate ourselves from the world in which we live. It is a world in which this generation is being called upon to undergo fiery ordeals in order that those that come after may live more abundantly.

THE INDIAN FINANCE BILL.

The Honourable Sir Jeremy Raisman (Finance Member): Sir, I move for leave to introduce the Indian Finance Bill, 1940.

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

"That leave be granted to introduce the Indian Finance Bill, 1940."

The motion was adopted.

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

The Assembly then adjourned till Eleven of the Clock on Friday, the 1st March, 1940.