

THE COUNCIL OF STATE DEBATES

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SEVENTH SESSION OF THE FOURTH COUNCIL OF STATE, 1940



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Council of State

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BAR.-AT-LAW.

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THE HONOURABLE MR. R. H. PARKER.
THE HONOURABLE MR. P. N. SAPRU.

} *Members.*

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COUNCIL OF STATE.

Thursday, 29th February, 1940.

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

PARSI MARRIAGE AND DIVORCE (AMENDMENT) BILL.

THE HONOURABLE MR. M. N. DALAL (Bombay : Non-Muhammadan) : Sir, I beg to present the Report of the Select Committee on the Bill to amend the Parsi Marriage and Divorce Act, 1936.

STATEMENTS, ETC., LAID ON THE TABLE.

THE HONOURABLE MR. C. E. JONES (Finance Secretary) : Sir, I lay on the table copies * of the—

- (1) Central Government Appropriation Accounts (Civil), 1938-39 and the Audit Report, 1940.
 - (2) Central Government Finance Accounts, 1938-39 and the Audit Report, 1940.
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PRESENTATION OF THE GENERAL BUDGET FOR 1940-41.

THE HONOURABLE MR. C. E. JONES (Finance Secretary) : Sir, I have the honour to present to the House the revised estimates of revenue and expenditure of the Governor-General in Council in respect of subjects other than railways for the year 1939-40, and the corresponding estimates of revenue and expenditure for the year 1940-41. In the peroration of his speech introducing the Budget for the current year Sir James Grigg said :

“ For India, as for the rest of the world, the future is much more important than the past. The political situation has many menacing features both in India and outside ”.

Since those words were uttered a year ago the catastrophe of war has descended upon a distracted world and India finds herself aligned with those nations which are putting all their strength and all their resources into the struggle for the preservation of those principles and conditions in which alone the ordered and peaceful progress of mankind is possible. We are now at the end of the sixth month of the war, and none can say how long it will continue, how far the sphere of active hostilities will spread, or to what extent India will become directly involved and her general economy affected. But it is certain that anxious and difficult times lie ahead, not only for so long as the war lasts but during the protracted period of post-war readjustment which is sure to follow, and which will be the more serious and trying the longer it is delayed. I would therefore submit, Sir, that it behoves us while doing all that is in our power to assist in bringing the war to a successful

* Not printed. Copies placed in the Library of the House.

[Mr. C. E. Jones.]

conclusion as early as possible, to exercise foresight in the light of the experiences of the last war and post-war periods by utilising the immediate period of war-time prosperity for conserving our strength and husbanding our resources against the unknown needs of the uncertain future ; and the first practical step towards that end would seem to be to ensure that our current requirements are met from current revenues lest we dissipate our strength and impair our credit by living beyond our means.

2. That, Sir, is in brief the general background against which the figures and facts which I have now to place before the House fall to be considered. But before I enter up on this task I must first, in accordance with precedent, complete the picture of the background by giving the actual results of the financial working of the year which closed on the 31st March last. The final figures for 1938-39 showed an improvement as compared with the revised estimates which were placed before the House this time last year to the extent of Rs. 2,01 lakhs, being the combined result of an improvement in revenue amounting to Rs. 1,51 lakhs and a reduction in expenditure on revenue account of Rs. 50 lakhs, thereby reducing the revenue deficit for the year from Rs. 2,65 lakhs as anticipated to the more modest sum of Rs. 64 lakhs. The main variation on the revenue side was in respect of income-tax, the net receipts from which exceeded the revised estimate by as much as Rs. 1,24 lakhs. While the increase over our expectations is gratifying, the margin of difference is greater than the Government are prepared to regard as acceptable notwithstanding the admitted difficulties of estimation under this head towards the close of the year. Steps are therefore being taken to secure greater accuracy by centralising and mechanising the tabulation of income-tax statistics in the office of the Central Board of Revenue, and at the same time to revise their form with a view to enhancing their general usefulness. Meanwhile for the current year the revised estimate has been framed on a basis which takes account of the tendency to under-estimation which past experience has shown generally to occur.

3. The only other large variation as between the actuals and the revised estimate was an improvement in the yield of customs and central excise duties of Rs. 78 lakhs in the last two months of the year. This was due to a sudden improvement in the import trade which in the circumstances existing at the time when the revised estimates were prepared could not have been foreseen. It will be remembered that a variation almost equal in amount but in the opposite direction occurred towards the end of the previous year 1937-38 as the result of an equally unexpected decline in imports. There is, I am afraid, no possibility of guarding against apparent inaccuracies in the revised estimates which are due to sudden reversals of trade tendencies towards the year end.

4. The improvement in income-tax receipts was partially offset by a decline in railway earnings in the last months of the year, which reduced the amount of the railway surplus payable to general revenues by Rs. 68 lakhs. The net result of the larger receipts from income-tax and the reduced railway surplus was that the amount distributable to the Provinces under the Government of India (Distribution of Revenues) Order in Council was increased from Rs. 1,12 lakhs to Rs. 1,53 lakhs. Including arrears of Rs. 38 lakhs due for the previous year 1937-38 the total amount payable for 1938-39 amounted to Rs. 1,91 lakhs. In March 1939 a sum of Rs. 1,50 lakhs was distributed to the Provinces, thus leaving a balance of Rs. 41 lakhs to be paid in the current year 1939-40.

5. I turn now to the consideration of our anticipated revenue and expenditure in the current year. This question naturally resolves itself into an

appreciation of the effect of the war on India's financial and economic structure. Until the outbreak of the war early in September, 1939 there was, apart from a few readily understandable exceptions, little indication of any serious departure from our budget estimates. Thus, for instance, the revenue from customs and central excises, excluding sugar, was coming in steadily and rather better than our estimates, reflecting the gradual improvement in trade conditions which was then occurring. Sugar was contributing a substantially increased revenue for the reason that a partial failure of the Indian cane crop led to a considerable shortage in domestic production with correspondingly increased imports. Income-tax revenue was being realised rather more slowly than usual, but that was due to the temporary dislocation of the income-tax administrative machine consequent upon the changes effected by the Income Tax Amendment Act which was enacted towards the end of last year; there was however every reason to suppose that the leeway would be made good by the end of the year. Then came the war, with the immediate result of a complete stoppage of our import from enemy countries, a serious interruption of imports from the allied countries, and a substantial shortage of shipping. On the other hand, the war undoubtedly provided a great stimulus to the trade of the country. These factors are sufficient to explain the majority of the variations between the budget estimates and the revised estimates for the current year. Customs revenue slumped badly in the months of September and October, but subsequently revived as the demand for our exports brought shipping to our shores. Our revised estimate for Customs, excluding sugar, shows a fall of Rs. 41 lakhs for the year instead of the appreciable increase which would in all probability have been secured but for the war. The total revenue from sugar, taking customs and excise duties together, is expected, for the reasons already given, to exceed the budget estimate of Rs. 4.20 lakhs by Rs. 1.70 lakhs. The heavy speculative demand for silver in the early months of the war has provided customs revenues with a windfall of over Rs. 1½ crores as against one-third of a crore budgetted for. The total receipts from customs and central excise duties combined are expected to amount to Rs. 1.14 lakhs more than the budget estimate, which is much more than accounted for by the two increases which I have just mentioned, *viz.*, those attributable to sugar and silver.

6. The revised estimate for income-tax (including corporation tax) shows an improvement of Rs. 1.55 lakhs of which Rs. 1.11 lakhs goes to increase the distributable pool, thereby raising it to Rs. 13.76 lakhs. Honourable Members are doubtless aware that the amount retainable by the Centre out of the Provincial moiety has, by the recent amendment to the Distribution of Revenues Order in Council, been dislinked from the railway surplus and has been fixed for the three years commencing with the year 1939-40 at the definite figure of Rs. 4½ crores which is approximately what the Centre would have retained according to the budget estimates for the current year. The object of the amendment was to enable the Centre, which has to meet considerable extra expenditure both civil and military in connection with the war, to secure a due share of any improvement in income-tax or railway contribution arising largely out of war-time conditions. The full benefit of the improvement under both these heads would, under the original arrangement, have accrued entirely to the Provinces whose extra expenditure on account of the war is relatively slight, which would have been anomalous in the extreme. As it is, the Provinces will secure half of any increase in the divisible income-tax receipts which may result from the war-time stimulus to trade. According to the revised formula the share of the Provinces for the current year will increase from the budget figure of Rs. 1.78 lakhs to Rs. 2.38 lakhs, so that

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with the arrears of Rs. 41 lakhs due for 1938-39 the amount to be distributed to the Provinces in the current year will be Rs. 2,79 lakhs.

7. In concluding this survey of our revenue prospects for the current year I need only mention briefly that there is an increase in the railway contribution of Rs. 1,48 lakhs and of Rs. 87 lakhs from Posts and Telegraphs, both of which are mainly attributable to abnormally increased traffic following the outbreak of war. Taking our revenue as a whole, the revised estimates show a total net improvement of Rs. 5,08 lakhs as compared with the budget estimates.

8. Coming now to the estimates of expenditure for the current year, those relating to the Defence Services have the first claim on our attention by reason not only of their supreme importance but also of the complicated nature of the issues involved. In the first place it will be readily appreciated that the outbreak of war has fundamentally altered the whole basis on which the proposals of the Chatfield Committee for an ordered and balanced programme for the modernisation of the Army in India were framed. The programme itself had necessarily to be brought under review so as to adapt it to the changed conditions, and the original financial settlement had also to be reconsidered in the light of the higher price level and the disappearance of the greater part of the savings which we had counted upon realising in the earlier years of execution of the scheme. Arising out of the Chatfield scheme is the question of India's joint liability with His Majesty's Government in respect of India's External Defence Forces which are being employed outside India's territorial limits for her 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 these and other complications it became imperatively necessary to secure by agreement with His Majesty's Government a broad scheme of allocation between India and His Majesty's Government of defence expenditure in India which would be fair to both parties yet would avoid the immense accounting difficulties, prolonged controversies over questions of incidence and inevitable delays in final adjustment inherent in any scheme of meticulous apportionment on the lines followed in the last war. The main operative part of the agreement recently reached after prolonged discussions with His Majesty's Government provides that India will 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,

and that 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.

Item (1) has been fixed at Rs. 36.77 lakhs being the net budget estimate for the Defence Services for 1939-40 after excluding non-effective charges, these latter having been excluded from the settlement with His Majesty's Government. Although it has been calculated in this way, it is in essence not a summation of specific detailed items of expenditure as was the budget estimate but a lump sum adjustment between the Government of India and His Majesty's Government fixed for the duration of the war, and consequently no details are shown against it in the estimates. Item (2) is of course part of the normal cost of maintenance of the Army in India, but has been shown separately from item (1) because its amount is not fixed but will vary with variations in price levels. Item (3) covers specific measures of purely Indian defence which are found to be necessary from time to time, such as the mobilisation of the Indian Territorial and Auxiliary Forces, the expansion of military training facilities, local naval defence arrangements and the establishment of a Volunteer Auxiliary Air Force. Item (4) has been agreed to in pursuance of the principle of India's joint responsibility for her external defence on which the Chatfield settlement was based, and in consideration of His Majesty's Government having agreed to continue to implement the modernisation programme during the war at greatly enhanced cost. The payment will be made this year. On this basis the revised estimates of defence expenditure, assuming that no change in the non-effective charges will be necessary work out as follows :—

| | | Rs. |
|-----------------------------|-------|--------------|
| (1) Normal peace budget | . . | 36.77 lakhs. |
| (2) Effect of prices on (1) | . . | 25 " |
| (3) Indian war measures | . . | 3.86 " |
| (4) Non-effective charges | . . | 8.41 " |
| | Total | 49.29 " |

There is thus an increase over the budget figure of Rs. 45.18 lakhs of Rs. 4.11 lakhs, out 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 our defence expenditure. Allowing for the many relevant factors which I have briefly referred to above I think, Sir, that it will be agreed that the addition to our budget is very moderate and that the settlement which has been reached is favourable to India and reflects a spirit of generosity on the part of His Majesty's Government.

9. I need deal but briefly with the Civil Estimates, the revised figure for which in the current year is Rs. 37.56 lakhs as compared with the budget estimate of Rs. 37.46 lakhs. The small increase of Rs. 10 lakhs is however the net result of a number of fluctuations of considerably greater magnitude. Additional expenditure has had to be incurred on account of the creation of the Department of Supply, the appointment of a Controller of Enemy Firms and

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Custodian of Enemy Property, the internment of enemy subjects, the establishment of a censorship organisation and the formation of the War Transport Board. Considerable payments have had to be made to the Provinces for agency work performed by them or as grants-in-aid for special purposes, such as Air Raid Precautions schemes. Famine relief measures undertaken in Ajmer-Merwara and Delhi will cost us at least Rs. 16 lakhs this year. Interest charges on the other hand are expected to fall below the budget estimate by Rs. 39 lakhs, due mainly to the conversion operations carried out last July and to the lower rates of interest carried by the Post Office cash certificate which are now being encashed.

10. Thus our total expenditure for the year is estimated at Rs. 86.85 lakhs against our total revenue of Rs. 87.76 lakhs, and we anticipate that the nominal surplus of Rs. 3 lakhs originally budgetted for will be converted into a surplus of Rs. 91 lakhs, of which Rs. 86 lakhs will be contributed by the Posts and Telegraphs Department, mainly on account of increased traffic resulting from the war. If we followed the dictates of ordinary commercial prudence the greater part of the Posts and Telegraphs surplus would be constituted into a separate reserve fund, since even though we take it to general revenues we have to pay interest on it and in due course pay it out again to meet any future losses which may be occasioned by the inevitable post-war slump. But as times are difficult it is proposed for budgetary purposes to treat this contribution as a regular revenue receipt in spite of its being in actual fact a future liability, and to transfer the full anticipated surplus of Rs. 91 lakhs on revenue account to a revenue reserve fund so as to make it available for helping out the finances of next year.

11. We can now turn to a consideration of the estimates of revenue for the coming financial year 1940-41. Taking first the combined heads of Customs and Central Excise duties, we have to allow for a reduction of Rs. 90 lakhs in the revenue from sugar below the exceptionally high receipts of the current year since we anticipate an increase in domestic production with a consequent decrease in the volume of imported sugar. We have also to face a decline of Rs. 1.20 lakhs in the customs revenue from silver as it is impossible to expect that the abnormal demand from the market which occurred during the first few months of the year will be repeated next year. Of the remaining heads a certain number may continue unaffected by the war, but in respect of the others we must provide for the continuance during the whole of the coming year of the serious interference with imports which has been actually experienced during the later months of the present year. The effect of this has been calculated to be a drop of Rs. 1.97 lakhs as compared with this year's revised estimates. The total decrease thus comes to Rs. 4.07 lakhs, resulting in next year's estimates being fixed at Rs. 46.00 lakhs. It must however, be emphasised that the realisation of this estimate will depend upon the continuance during the whole of next year of the comparatively favourable conditions in the matter of shipping which we have so far experienced. Should the shipping position deteriorate to any appreciable extent, or should the necessity arise for us to restrict certain classes of imports in the interests of the successful prosecution of the war, the resulting inroads into our customs revenue might easily be substantial. The probability of disturbing factors of this kind materialising cannot be estimated nor, in the event of their materialising, can their effect be calculated. But the margin allowed for such contingencies is not large, and we shall be well content if the course of events enables our estimates to be realised.

12. The yield from taxes on income next year as compared with the revised estimate for the current year is bound to reflect the improvement in trade activity this year over that of last year. Mention has already been made of the fact that the improvement in trade which remained of moderate dimensions throughout the first half of the year jumped to something approximating to boom conditions after the outbreak of war. The extent of the war stimulus can be judged from the facts that in the six months from September the notes in circulation in India increased by over Rs. 54 crores and the rupee coin in circulation by over Rs. 17 crores, giving a total increase of notes and coin in circulation of over Rs. 70 crores; while the Schedule Banks' advances in India at the end of January, 1940 were more than Rs. 40 crores in excess of those of August, 1939 and more than Rs. 30 crores in excess of those of January, 1939. In consideration of these facts we have felt justified in raising the estimate of the yield from all taxes on income for 1940-41 by Rs. 1,41 lakhs over the revised estimates for the current year. Of this increase Rs. 1,24 lakhs goes to swell the divisible income-tax pool, half of which goes to the Provinces whose share is thus expected to reach Rs. 3,00 lakhs as compared with Rs. 2,38 lakhs this year.

13. With your permission, Sir, I would like to mention here, in passing, how the distribution of income-tax revenue to the Provinces has progressed over the four years 1937-38 to 1940-41. In the first two years distribution was governed by the original formula as given in the Order in Council of 1936, and the figures are given on the basis of actuals for those years. In the last two years the formula as revised by the recent amendment to the Order in Council applies, and the figures are the revised estimate and budget estimate respectively. The amounts payable in respect of each of the four years are, in their proper order, Rs. 163 lakhs, Rs. 153 lakhs, Rs. 238 lakhs and Rs. 300 lakhs. But the amount payable in respect of any year is not necessarily paid in that year, since a preliminary payment is made within the year and a final adjustment is made in the following year after the actuals are known. The amounts paid or to be paid in each of the four years are, in the same order, Rs. 125 lakhs, Rs. 150 lakhs, Rs. 279 lakhs and Rs. 300 lakhs. Whichever set of figures is taken, the improvement in the last two years is clear and plain and indicates that the revised formula, while securing the main object for which it was devised, has not operated unfairly to the interests of the Provinces.

14. General revenues are expected next year to receive from the Railways a welcome contribution of Rs. 5,31 lakhs, consisting of Rs. 4,41 lakhs as full contribution for the year under the Railway Convention and Rs. 90 lakhs on account of arrears of contribution for the current year. Rs. 37 lakhs are also expected from the Posts and Telegraphs, the figures of revenue and expenditure for which are as follows :—

| | Budget, 1939-40. | Revised, 1939-40. | Budget, 1940-41. |
|---|---------------------|----------------------|---------------------|
| | (In lakhs of Rs.) | | |
| Revenue | 11,62 | 12,48 | 12,35 |
| Expenditure (including interest charges) | 11,63 | 11,62 | 11,98 |
| Surplus | —1 | 86 | 37 |

The higher level of receipts is of course largely the result of the abnormal increase of all classes of traffic brought about by the war. The increase, especially in the case of telegraphs and telephones, was particularly marked in the first few months of the war, and that is the reason why

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next year's revenue is expected to be somewhat lower than this year's. The Department deserves to be congratulated on the smoothness and efficiency with which it adapted itself to the changed conditions and successfully met a suddenly inflated demand for its services from Government and from the public with but a very moderate increase in its working expenses. I should mention in this connection that a considerable part of the additional expenditure provided for next year is for the purpose of extending postal facilities in rural areas and for meeting the cost of petty works of a capital nature which, according to previous practice, would have gone to swell the capital account.

15. The net result of the various factors which I have just enumerated and of many others, comparatively minor and far too numerous to permit of specific mention, is that on the basis of existing taxation our total revenue for next year is expected to amount to Rs. 85.43 lakhs as against Rs. 87.76 lakhs in the revised estimates of the current year. I must now deal with the expenditure of 1940-41.

16. The total provision for Defence is Rs. 53.52 lakhs which, on the basis of the settlement with His Majesty's Government to which I have already referred, is made up of :—

| | Rs. |
|---|--------------|
| (1) Basic normal budget | 36.77 lakhs. |
| (2) Effect of rise in prices on (1) | 2.00 „ |
| (3) India's war measures | 6.59 „ |
| (4) Non-effective charges | 8.16 „ |
| Total | 53.52 „ |

The total extra expenditure to be thrown on the Defence estimates payable by India as a result of the war, after excluding Rs. 20 lakhs included in item (3) on account of Waziristan, is thus Rs. 8.39 lakhs. Honourable Members are aware that considerable extra expenditure directly connected with the defence of India is being met by His Majesty's Government, but I am confident that they will readily appreciate that it would not be in the public interest to disclose either the amount or the objects of such expenditure, which in any case does not affect our budget. One other point which needs to be emphasised is that the budget provision now made covers only such measures as can now be foreseen. A year is a long time to look ahead in these days of kaleidoscopic changes, and it is far from being outside the bounds of possibility that within the year new measures, at present unforeseen and unforeseeable, will be required which may throw considerable additional cost on India's defence budget.

17. The estimates of civil expenditure in 1940-41 amount to Rs. 39.07 lakhs and show an increase of Rs. 1.51 lakhs over the current year's revised estimates, in spite of the fact that special care has been taken to restrict the admission of new proposals to those which might be regarded as virtually unavoidable in the circumstances now obtaining. Nearly half the increase is accounted for by items which are either strictly obligatory or are counter-balanced by increased credits on the revenue side. Examples are, increased expenditure in the Mints and the Currency Note Press necessitated by the rapid increase in the note circulation and the demand for small coin ; expansion of the Department of Supply ; continuance of famine in centrally administered areas ; higher Road Fund allocation in consideration of the increased yield of the petrol tax ; and payment to the Coal Mines Stowing Board from the Coal

Cess receipts. The normal provision for the maintenance and repair of Government buildings has had to be restored since the cumulative effect of the past two years' economy cuts in this direction is a degree of deterioration which, if allowed to proceed further, would necessitate a much greater outlay at a later date. Then also it was deemed inexpedient to restrict the development departments' grants to the extent of crippling their beneficent activities or precluding their natural expansion. This accounts for increased commitments accepted, for example, in respect of the Delhi University and All India Radio. New schemes have been admitted if they were of such a nature as, on a broad view, would assist in the mobilisation of the economic resources of the country or further the successful prosecution of the war. On this ground an additional Rs. 25 lakhs yearly is to be provided for the next seven years for an important expansion programme in civil aviation by which the civil aerodrome organisation will be extended throughout the country, both for defence and for commercial development. Lastly, in view of the importance which is attached to maintaining the continuity of the series of decennial censuses which have been held uninterruptedly since the year 1872, provision has been made for the primary work of enumeration for the next census, which is due in 1941. The questions as to whether, when and to what extent the larger task of compilation will be undertaken has been left over for decision at a later date.

18. The total estimates of expenditure for 1940-41 thus come to Rs. 92,59 lakhs, while, as we have seen, the estimated total revenue on the basis of existing taxation and including the increased railway contribution of Rs. 5,31 lakhs is Rs. 85,43 lakhs. The difference gives a prospective deficit on revenue account of Rs. 7,16 lakhs. Before dealing with the question as to how this deficit is to be made up I must first say a few words about the Government's ways and means position.

19. During the current year the Government of India floated a further combined cash and conversion issue of the 3 per cent. Loan 1963-65 at an issue price of 98. This produced Rs. 15,72 lakhs, of which Rs. 8,24 lakhs represented conversions of the 5 per cent. Loan 1939-44, the balance representing cash and conversions of the 5 per cent. Loan 1940-43. The unconverted part of the 5 per cent. Loan 1939-44 was duly discharged by an increase in our temporary borrowings, but within the space of a few months this increase was substantially reduced by the proceeds of the sales of Government silver. Next year we shall have the option of redeeming the remainder of the 5 per cent. Loan 1940-43, the outstanding balance of which is just under Rs. 19½ crores. Our sterling requirements for this year are down to the extraordinarily low figure of £10½ millions, as against the budget estimate of £27 millions, on account of our being paid in sterling for raw materials and goods produced in India supplied to His Majesty's Government which were paid for by us in rupees in the first instance. Meanwhile with the great improvement in the balance of trade which has taken place during the year the Reserve Bank is making considerable purchases of sterling, the total for the first 10 months aggregating approximately £53 millions. A considerable portion of these sterling acquisitions have hitherto been used as external backing for the expansion of currency in India to which I have referred earlier in this speech. The balance has enabled us not only to reopen the scheme which was previously in operation for the repatriation of Indian sterling non-terminable debt, but also to extend repatriation operations to all Indian sterling loans. The total value of sterling securities acquired so far for the purpose of debt repatriation is approximately £9 millions and the process may be expected to continue during the coming year at an increasing rate to the permanent relief of our remittance programme in future years.

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20. It now remains for me to explain how it is proposed to fill the gap of Rs. 7,16 lakhs between our estimated expenditure for next year and our anticipated revenue. The gap is wide, but not nearly so wide as it would have been but for the assistance which our general revenues next year will receive from our two great commercial departments, the Railways and the Posts and Telegraphs. Similarly, it is entirely due to the larger contributions received from these same departments in the current year that we will start next year with a sum of Rs. 91 lakhs in the Revenue Reserve Fund, which we propose to utilise for revenue purposes during the year. By this means our prospective deficit is reduced to Rs. 6,25 lakhs, and that is the measure of the new tax revenue which will be required next year to balance the budget.

21. The necessity for increasing taxation is always a matter for regret and the task is never pleasant. More often than not it is occasioned by an economic depression which reduces the return from existing sources of revenue below the level required for carrying on the administration of the Government. At such times the economy of the country is at its lowest ebb and its taxable capacity so reduced that new taxation causes a double hardship. The circumstances of today are somewhat different. Additional revenue is now required to meet the additional expenditure necessary for purposes of defence. This is a feature which is not peculiar to India but is common to almost all nations of the earth, whether belligerent or neutral, as a result of the spirit of ruthless, unprovoked aggression which is now rampant abroad. The incidence of a war economy is far from being equal on all classes. To some it means suffering and bereavement; to others, hardship and poverty; to yet others nothing more than a slight reduction in their standard of living, while to a favoured few it means prosperity beyond the normal. Let me not be misunderstood. I am neither casting nor desirous of casting any reflection whatsoever on this latter class of persons. There is no reason why I should. Their increased activities are adding to the general prosperity of the country, and in many cases they are performing a service to mankind in quickening the supply of goods and commodities vitally required by those nations which are directly engaged in fighting the forces of aggression. But the plain fact remains that they are in the fortunate position that the war, which has brought additional burdens to the country and therefore to the community at large, has brought to them additional profits. It is therefore but natural and, I would submit, in the interests of the general taxpayer inevitable, that in seeking the additional revenue they require the Government should turn first to this class of persons. Their proposals to that end are embodied in the Excess Profits Tax Bill which is now before the Legislative Assembly, and which will in due course be brought before this House. I will therefore say nothing further about the measure at this stage, Sir, except to observe that so far as I can see it is based on a principle whose equity is unchallengeable and whose logic is inescapable.

22. As to the yield of the Excess Profits Tax, it is only possible to estimate it in the roughest possible way. From its very nature anything like precise calculation is impossible. The experience of 1919 affords us little guidance, since on the one hand the tax was then not imposed until after the war, by which time the war-time expansion of the profits of trade and industry had reached its peak and prices had soared to an inflated level. On the other hand, industry in India at that time was not quite so broad based as it is now. The Excess Profits Tax in its application to companies falls under the head of corporation tax, and so the entire receipts from companies will accrue to the Centre. In its application to assesses other than companies the tax rank

as a tax on income and the proceeds will be divided equally between the Centre and the Provinces. But since the amount of Excess Profits tax paid is deducted from the income assessable to income-tax and super-tax, there will be a reduction in the yield of these latter taxes. So far as the Provinces are concerned, we calculate that in 1940-41 the two factors will mutually cancel each other, leaving the amount distributable to the Provinces unchanged at Rs. 3,00 lakhs. So far as Central revenues are concerned, after a careful consideration of this difficult problem in all its aspects, we have decided to fix the estimated yield in 1940-41 at a net additional Rs. 3,00 lakhs, after allowing for the effect on income-tax and super-tax.

23. We are still left with a gap of Rs. 3,25 lakhs, and no alternative for dealing with it but to make new demands to this extent on the general taxpayer. The formulation of proposals which will operate most fairly in their incidence is not an easy one. Ordinary income-tax is no longer a purely Central source of revenue, but a divided head. The constitution, while providing for a Central surcharge, permits, its imposition only after all other practicable means of balancing the budget have been explored. Moreover it is only a year since the incidence of income-tax over the higher ranges of income was considerably enhanced. For the present, therefore, this avenue has been abandoned until more pressing needs compel resort to it. The main objection to indirect taxation is of course its regressive character, but the force of the objection varies enormously according to the commodities which are made the subject of taxation. Having due regard to all these factors, it has been decided to increase the excise duty on sugar from Rs. 2 to Rs. 3 a cwt., and to increase the duty on motor spirit from 10 annas to 12 annas a gallon. Neither of these articles enters into the normal consumption of the poorest classes; and therefore, as additional revenue has to be raised, our proposals may not unreasonably be regarded as the least burdensome method of securing it that can be devised. Complaints will doubtless be made that we are placing a further obstacle in the way of the development of road transport; but an increase in the duty on motor spirit is not an unusual feature of war-time finance, and it is relevant to remember in this connection that railway fares and freights have also been enhanced. The increase in the sugar excise duty, together with the corresponding increase in the import duty which under the Customs Tariff Schedule will automatically follow, is expected to produce Rs. 1,90 lakhs, while the additional 2 annas per gallon on petrol should bring in Rs. 1,40 lakhs, thus giving a total of Rs. 3,30 lakhs. The final figures for the year 1940-41 thus become :—

| | Rs. |
|-----------------------|--------------|
| Revenue | 92,64 lakhs. |
| Expenditure | 92,69 „ |
| Surplus | 5 „ |

24. My task, Sir, is now done, and in conclusion I would like merely to revert to the theme on which I began this speech and beg Honourable Members to regard the Budget as a whole in its proper perspective against the background of the world situation as it is now and as, if history repeats itself, it will be in the future. The world is passing through a terrible ordeal from which India could not isolate herself even should she wish to do so and to contribute nothing towards the overthrow of the spirit of naked force and brutal aggression which precludes the very possibility of peace and goodwill, confidence and trade as between nation and nation. The exigencies of national defence are paramount and none can tell what demands they will yet make in the anxious times that lie ahead. India has been fortunate in that the additional burdens falling

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upon her have so far been relatively light and not beyond her capacity to bear. But that can afford no guarantee for the future, and it is, I submit, Sir, our clear duty to accept with courage and fortitude those sacrifices which these early days require of us so that our resources may be conserved for the greater efforts that may yet be required of us in the interests of our national security and in the cause of peace and progress.

STATEMENT OF BUSINESS.

THE HONOURABLE KUNWAR SIR JAGDISH PRASAD (Leader of the House): Sir, I suggest that the House should meet again on Monday, the 4th March which, as the Honourable Members are aware, has been allotted for non-official business.

I propose that the following Bills which have been laid on the table be taken up for consideration on Tuesday, the 5th March :—

- (1) The Trade Marks Bill.
 - (2) The Indian Coinage (Amendment) Bill.
 - (3) The Factories (Amendment) Bill.
 - (4) The Reserve Bank of India (Closing of Annual Accounts) Bill.
 - (5) The Indian Emigration (Amendment) Bill.
 - (6) The Reserve Bank of India (Amendment) Bill.
 - (7) The Arbitration Bill.
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The Council then adjourned till Eleven of the Clock on Monday, the 4th March, 1940.