

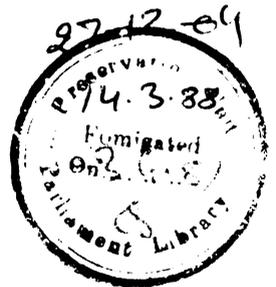
Friday, 28th February, 1941

**THE
COUNCIL OF STATE DEBATES**

VOLUME I, 1941

(19th February to 4th April, 1941)

**NINTH SESSION
OF THE
FOURTH COUNCIL OF STATE, 1941**



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COUNCIL OF STATE

Friday, 28th February, 1941.

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.

PRESENTATION OF THE GENERAL BUDGET FOR 1941-42.

THE HONOURABLE MR. E. C. 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 1940-41, and the corresponding estimates of revenue and expenditure for the year 1941-42.

2. Twelve months have passed since I brought before the House the estimates and proposals for the current year, which constituted India's first war budget for the war which by then, as we now see in retrospect, had barely got going. Within that year momentous developments have occurred. We have seen nation after nation falling victim to ruthless and unprovoked aggression. It is not necessary for me however to enlarge on that subject, since the course of events is known to all and little imagination is required to appreciate their terrible implications to the people affected. Nor need I dwell on the encouraging achievements of the Allied forces during the past three months. But I cannot refrain from paying my small tribute of admiration and gratitude to the Indian contingents in the Middle East armies for the courage and bravery with which they have been "doing their bit" to hold one of the vital routes to India and so to keep the conflict, which seems rapidly to be developing into a world war, away from the soil of their Motherland. Meanwhile the world situation remains extremely grave and our immediate task here is to develop with the utmost possible speed our military strength and preparedness to ensure that we can successfully resist attack from whatever quarter and in whatever strength it may come to us.

3. Considering the intensity and the far flung spread of the present world conflict it is inevitable that the dominant factor governing the financial and economic situation in this country should be the war and the conditions arising out of the war. The effect of the impact of war conditions on our economy has been adverse, and in many respects seriously adverse. Yet the blackness of the picture is not altogether devoid of relief and it behoves us to guard against the temptation to overdraw it. We are, indeed, in my opinion, not without grounds for some measure of surprise and gratification that conditions are not as bad as they might so easily have been after 18 months of war. We have lost large and important export markets for our produce in Europe, but the loss has been at least partially made good within the Empire and in certain neutral countries. The shortage of shipping is frequently acute, yet the value of our exports is on a substantially higher level than it was in the pre-war months. The catastrophic fall in prices which was brought about by the military events of the early summer of 1940 was succeeded by a partial recovery, with the result that the present prices of many of our main commodities are appreciably higher than they were in

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August, 1939. Then, again, our rapidly accelerating war effort imposes an increasingly heavy burden of expenditure on our budget; but the vast and growing requirements of war supply are providing a powerful stimulus to the industrialisation of the country, increasing the volume of employment, expanding the national income and thereby assisting the country to provide the finance required by way of taxes, gifts or loans. The growing consumption capacity of the country in general is well illustrated by the growth of railway traffic receipts, especially the increased earnings from passenger traffic, to which the Honourable Railway Member made reference in his speech introducing the Railway Budget in the Legislative Assembly last week.

4. For a proper appreciation of the prospects for the current year some reference to the final results for the financial year 1939-40 is necessary, but I will deal with that very briefly. Honourable Members will recall that it was decided to take the surplus of 1939-40, which according to the revised estimates was expected to amount to Rs. 91 lakhs, to a Revenue Reserve Fund so as to be available for expenditure on revenue account in the current year. A lucky year-end spurt in trade activity, mainly due we believe to the laying in of stocks in the closing months of the year, so increased our revenue from Customs and Salt and the earnings of our railways that, combined with an improvement of over a crore in income-tax receipts and a few other minor improvements in revenue, the realised surplus amounted to no less than Rs. 7.77 lakhs. The Revenue Reserve Fund thus secured Rs. 6.86 lakhs more than we anticipated at this time last year.

5. The improvement in the income-tax receipts raised the amount of the divisible pool from Rs. 13.76 lakhs to Rs. 14.66 lakhs, thereby increasing the share payable to the Provinces for the year 1939-40 from Rs. 2.38 lakhs to Rs. 2.83 lakhs. As the arrears due on account of the year 1938-39 had been finally certified to be Rs. 39 lakhs and the amount actually distributed in March, 1940, was Rs. 2.79 lakhs, there remains a balance of Rs. 43 lakhs due to be paid to the provinces along with their share for the current year.

6. We are now in a position to review our revenue prospects for the current financial year, 1940-41. Honourable Members are aware that our customs revenue is being sadly depleted as a result of war disturbances to trade. There is first the direct loss of trade with enemy countries and countries under enemy occupation. Then there is the painful necessity of restricting imports from certain "difficult currency" countries as they are called in order to conserve foreign exchange for purposes vital to the prosecution of the war. Last but by no means least there is the shortage of shipping for normal trade purposes resulting from the heavy war demands on available tonnage. In view of these adverse factors the budget estimate of Customs receipts had been fixed as low as Rs. 39.16 lakhs, as against actual receipts for 1939-40 of Rs. 45.88 lakhs. But the fall has proved to be even sharper than we anticipated and we now put our revised estimate for the year at Rs. 37.75 lakhs, which is Rs. 1.41 lakhs below the budget figure. Central Excise revenue also shows a substantial fall, mainly due to sugar the collections from which are now expected to amount to only Rs. 3.15 lakhs against the budget estimate of Rs. 5.25 lakhs, a drop of Rs. 2.10 lakhs on that one commodity alone. The estimate for Salt revenue was fixed on the basis of normal annual consumption, but the abnormally heavy clearances in the latter part of last year have been followed by reduced issues in the current year which will bring our revenue receipts half a crore below the budget estimate. These reductions are, however, more than offset by a number of

substantial gains. There is first the additional Rs. 6,86 lakhs available in the Revenue Reserve Fund to which I have already referred. Then the magnificent railway contribution to general revenues in the current year, which as the Railway Budget disclosed amounts to Rs. 9,96 lakhs inclusive of a refund of arrear contributions to the extent of Rs. 2,81 lakhs, gives us Rs. 4,65 lakhs more than was provided in the budget. Excess Profits tax payable for the current year is still estimated at Rs. 3 crores, but on account of unavoidable delay in assessment work only Rs. 2 crores are likely to be collected within the year, leaving a carry over of Rs. 1 crore for next year. We anticipate a corresponding fall of Rs. 83 lakhs below budget under Corporation Tax, but other Taxes on Income, including the Central surcharge imposed by the Supplementary Finance Act of last November, are expected to show a rise of Rs. 3,30 lakhs, of which Rs. 73 lakhs goes to increase the share payable to the Provinces from the budgetted sum of Rs. 3,00 lakhs to Rs. 3,73 lakhs, leaving a net improvement to the Central Budget of Rs. 2,57 lakhs. Other increases are Rs. 92 lakhs from Currency and Mint, mainly due to the exceptionally heavy absorption of small coin into circulation, and Rs. 65 lakhs in the surplus of the Posts and Telegraphs Department to which the increases in postal rates and the surcharges on telegram and trunk telephone charges imposed last November have largely contributed. The net result of these variations and others of less significance is that our revised estimates for revenue for 1940-41 show an improvement as compared with the budget estimates of Rs. 11,07 lakhs. The actual figures are, Budget Rs. 92,64 lakhs; Revised, Rs. 103,71 lakhs.

7. We have now to consider the expenditure position in the current year, the dominating feature of which is inevitably defence expenditure, and it is with this aspect that I will first deal. Honourable Members will remember that by last November an expansion programme was well under way, a comprehensive description of which was given at the time, calculated as I explained in my speech moving consideration of the Supplementary Finance Bill to increase by no less than Rs. 14½ crores this year's original budget provision for the Defence Services of Rs. 53½ crores. The three succeeding months, short as the period may appear, have been productive of such rapid progress and so intensive a development of India's war effort that the non-recurring and recurring cost of the defence measures to which we now stand committed over and above what were envisaged when the budget for the year was prepared have increased from Rs. 33 crores and Rs. 16 crores per annum respectively, as announced last November, to Rs. 52 crores and Rs. 19 crores per annum; while the amount of additional expenditure falling in this year's budget has risen from Rs. 14½ crores to Rs. 17½ crores. The House will I am sure welcome some indication of the progress that has been made, and I will give such particulars as are possible within the necessarily confined limits of this speech.

8. The total strength of our armed forces is now well over half a million men of all arms and further expansion is proceeding. Provision has been made for the raising of new armoured and mechanised cavalry regiments, new Indian field artillery regiments, regular infantry battalions, engineer units, more M. T. Sections and all the highly trained and specialised ancillary troops required for modern warfare. The Fighting Vehicles School has continued to expand; a new Cadet Wing has been opened at the Artillery School, and an anti-aircraft training centre has been established which is designed to train several hundred students a month. The R. I. A. S. C. Officers' Technical School has been further expanded and its output is now seven times what it was at the outbreak of war. Mechanical transport training

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establishments have still further increased and, apart from mechanised cavalry, artillery and infantry, who train their own men, the output of trained drivers has grown to 40 times what it was in August, 1939. Two new Signal Training Centres have been opened and the training establishments of Sapper and Miner Units have more than doubled since November last.

9. The House will be glad to know that in the expansion which is now in progress special attention is being devoted to the provision of adequate training establishments and the maintenance of that high standard of training which has rightly become associated with the Indian Army. Thorough and efficient training produces rich rewards as the recent victories in Africa have proved in a peculiarly spectacular manner. Inefficient or scamped training might well be productive of large-scale military disasters and huge loss of life. This important consideration inevitably sets a limit to the pace of our expansion.

10. Many of the new units we have raised are now completing their training and a number have already taken up active rôles. When the expansion of the army in India began, owing to difficulties in obtaining equipment, the number of armoured units and artillery regiments included was less than could have been desired. Improvements in the supply situation, however, both in India and the United Kingdom, have now made it possible to remedy this deficiency and our plans include the transformation into armoured and light-armoured regiments of the whole of the existing cavalry, and the raising of additional regiments of this kind. With regard to artillery, increasing assistance from His Majesty's Government, both in personnel and equipment, has made it possible to ensure that we do not fall short in this component.

11. With regard to equipment generally, His Majesty's Government have recently agreed to a standing arrangement under which India will receive a substantial fixed proportion of the output of the United Kingdom. As a result of this arrangement, steady supplies of all kinds of equipment unobtainable in India, such as guns, machine tools, optical instruments, wireless and other signalling equipment and anti-gas equipment are now forthcoming, and will enable India to push forward with the modernisation of her normal defence garrison, and with the equipment of the forces now being raised, on a scale adapted to the requirements of modern war.

12. The growth of the Royal Indian Navy has continued unchecked. The programme of shipbuilding in India has been further expanded and the recruiting and training of officers and men to man the new construction is proceeding apace. All instructional establishments have been greatly increased in capacity; a new Signal School is being built and start has been made with a large new Gunnery School. Other new Naval establishments are in process of development. Some idea of the increase in work being carried out in the Government Dockyard may be gathered from the figures of workmen of all classes and trades employed there. Before the war the figure was 1,168; it has now risen to nearly 5,000. In addition to meeting our own requirements, a great deal of work has been carried out on behalf of His Majesty's Government in connection with the arming and protection of both British and Indian merchant shipping, and also in the provision of repair facilities to ships of the Royal Navy.

13. As regards the Air Force, the difficulties arising from deficiencies of equipment and experienced technical personnel, which for a time held up the

expansion of this Arm, have recently been considerably lessened. A number of modern aircraft and connected equipment are in sight from American sources and further supplies are expected which will go a considerable way towards completing and modernising the equipment of the squadrons now in India, as well as setting free machines for the training of new squadrons. The arrangements for training personnel have also been considerably improved. Close liaison between the civil and air force training schemes has been established, and a proposed amalgamation and re-organisation of all available facilities will provide Air Force elementary flying training schools, formed around existing flying clubs, and an expanded service flying training school. All these institutions will be operating to full capacity in the near future. A start has been made with the formation of a reserve and the training both of officers and airmen is being pushed forward as rapidly as the capacity of the schools permit and as fast as instructional and maintenance personnel and equipment become available. The scheme for establishing aeroplane manufacture in India has reached a new stage and there is now little doubt that the year 1941 will witness the appearance of the first aeroplanes to be produced in India. This achievement, memorable in itself, should prove of great value in speeding up the expansion of India's air force, a development of supreme importance.

14. The position in regard to the vital matter of supplies has, I am glad to say, substantially improved since last November. The Government Ordnance and Clothing factories have been working at the highest pressure for some time past and an indication of what this means can be gathered from the fact that whereas before the war the average number of workmen employed in these factories was under 17,000, the number has now risen to over 45,000 and the curve of production is still rising. Steps have recently been taken to supplement the output of these factories by taking over railway and private workshops and utilising their resources for the production of munitions of war. The Roger Mission, which has been investigating the possibilities of expanding India's output of war supplies has now submitted its reports to His Majesty's Government who are giving them their urgent consideration. We may hope that the result will be that India will before long be able substantially to increase her output of munitions.

15. Certain other important developments are expected to lead to a further considerable improvement in the supply field. His Majesty's Government have agreed to a forward programme of supply covering estimated requirements for a period of two years ahead, which has enabled the Department of Supply to enter into forward commitments within the limits of the programme and so even out the flow of production and utilise productive capacity to maximum advantage. His Majesty's Government have also authorised us to purchase vehicles, machine tools and other essential war requirements in the United States and Canada, to the extent necessary to meet our needs for a considerable period ahead. An officer has been placed on special duty in America with the object of discovering and effecting purchases of such supplies as are available to India from this source. Then again, the deliberations of the Eastern Group Conference will shortly bear fruit in the shape of the institution of an Eastern Group Supply Council to be located in India which will in due course co-ordinate the requirements of various Empire countries and forces operating east of Suez and will ensure that the resources of the participating countries are utilised to the fullest advantage for the successful prosecution of the war.

16. These widespread developments in the supply field must necessarily give a great stimulus to Indian industries. One of the most important results

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has been the investigation of the possibilities of establishing new industries in India for the production of stores that have hitherto been imported. The list of stores required both in India and to meet overseas demands is constantly under review and items formerly placed in the category of imported stores are continually being transferred to the indigenous category as a result of the discovery either of methods of producing them in India or of suitable domestic substitutes.

17. It is this remarkable acceleration of defence activities in so many directions that has led to the increased burden of expenditure falling on our revenues of which I gave the figures a few minutes ago. The bill is heavy, but the need for security is paramount and the pace of progress must be conditioned by limitations of supply, training and such like rather than of cost. The maximum rate of efficient expansion of which we are capable is the minimum which responsible opinion in the country demands. I should here perhaps remind the House that the allocation of war expenditure between India and His Majesty's Government is still governed by the settlement arrived at between the two Governments which was fully explained in my budget speech of a year ago. In accordance with the principles underlying this settlement any forces now being raised that India may agree to send for service overseas cease to be an Indian liability on leaving India and the whole initial cost of raising, training, and equipping such forces as well as the subsequent recurring charges are borne by His Majesty's Government. The details of the revised estimate of defence expenditure for 1940-41 which amounts to Rs. 72.02 lakhs work out as follows :—

	(Rs. in lakhs.)	
	Budget.	Revised.
	Rs.	Rs.
(1) Basic normal budget	36.77	36.77
(2) Effect of rise in prices on (1)	2.00	2.53
(3) India's war measures	6.59	24.31
(4) Non-effective charges	8.16	8.41
	<hr/>	<hr/>
TOTAL	53.52	72.02
	<hr/>	<hr/>

The increase of Rs. 53 lakhs in item (2) is mainly due to the increases of emoluments granted during 1940-41 to British and Indian troops as a war concession. In so far as these increases would have raised the cost of India's normal garrison the extra cost is included under this head. The increase of Rs. 17½ crores in item (3) has already been explained. Out of the total provision of Rs. 24.31 crores for India's war measures approximately Rs. 15.00 crores represents the initial cost of such measures; the balance consists of recurring expenditure. The revised estimate for non-effective charges—item (4)—has for the present been fixed at the normal budget level of 1939-40 but discussions are in progress with His Majesty's Government with a view to reaching a settlement that will regulate the allocation of these charges as has already been done for effective charges. The effect of the war on these charges obviously cannot be foreseen, though happily there has so far been no appreciable increase owing to the absence of heavy casualties. I should here point out that the excess of the sum of Rs. 24.31 crores shown against item (3) over our normal defence expenditure by no means reflects the full magnitude of India's war effort since it excludes the cost of supplies and services rendered by India to His Majesty's Government, which is substantially greater than this amount.

I should also mention here that His Majesty's Government, besides paying in full for all such supplies and services, are supplying free of charge much of the equipment needed for the modernisation of the Army in India and for the initial equipment of units now being raised in pursuance of our expansion scheme.

18. Our revised estimate of civil expenditure for the current year stands at Rs. 40,11 lakhs, an increase of Rs. 1,04 lakhs over the budget estimate of Rs. 39,07 lakhs. As I explained last November, an increase of nearly Rs. 2½ crores was expected on account of schemes which, though attributable to and directly connected with our defence measures, are actually chargeable to civil estimates; such as, for example, the schemes for the training of the Air Force Reserve and of war technicians. That expectation still stands, but the increase is offset, first by a real saving of Rs. 71 lakhs in interest charges on account of the low level of interest rates, especially of short-term debt; and secondly by a technical saving of Rs. 67 lakhs, the amount received from Burma as her share of pensionary charges which, through a change in accounting procedure, is now to be taken in reduction of expenditure instead of as a revenue receipt.

19. The revised estimates for the current year 1940-41 may therefore be summarised in the following form :—

	Budget.	(In lakhs of Rs.)	
		Revised.	Improve- ment (+) Worsen- ing (—).
Net defence expenditure	53,52	72,02	—18,50
Civil expenditure	39,07	40,11	—1,04
Total expenditure	92,59	112,13	—19,54
Total revenue	92,64	103,71	+11,07
Surplus (+) Deficit (—)	+5	—8,42	..

The Budget was framed to give a nominal surplus of Rs. 5 lakhs. In November we were faced with a probable deficit of the order of Rs. 13 crores before taking into account the revenue from the new taxation then imposed, which was expected to yield Rs. 2 crores within the year. We now estimate that the deficit will be Rs. 8,42 lakhs. The improvement on our November anticipations is more than accounted for by the further payment of Rs. 2,81 lakhs made by the Railways to general revenues by way of refund of arrears of contribution.

20. We can now turn to a consideration of the estimates of revenue for the coming financial year, 1941-42. The major variations as compared with the revised estimates of revenue of the current year can be quickly enumerated. The Revenue Reserve Fund which provided Rs. 7,77 lakhs this year will give us nothing next year. We have also allowed for a further fall of Rs. 3 crores in the yield from Customs duties on the assumption that the war-time factors already described which are hindering trade and reducing our Customs receipts will continue to operate throughout the coming year with but little greater intensity than they have done during the current year. Against these reductions, we are taking credit for an increase of Rs. 1,75 lakhs in the Central Excise revenue, mainly on account of sugar, and we will also get the benefit of a full year's receipts from the Central surcharge on income-tax as compared with only 4 months' receipts in the current year, as well as the benefit of the first full year's receipts from the Excess Profits Tax. The yield from the Central

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surcharge is estimated at Rs. 5,68 lakhs, and that from Excess Profits Tax at Rs. 7½ crores for 1941-42 plus the Re. 1 crore carry-over from 1940-41. We have raised our next year's estimate of the total yield from ordinary Corporation Tax and Income Tax by half a crore to reflect the improvement which will result from the assessment of incomes derived from a full year of war profits. Incidentally, the share payable to the Provinces next year out of the divisible Income-Tax pool is expected to establish a new record at Rs. 4,46 lakhs, an advance of Rs. 73 lakhs on the current year's figure.

21. We are counting upon the continued prosperity of our great commercial Departments to give us contributions next year even higher than they are giving this year; in the case of the Railways by Rs. 22 lakhs for the reasons which were made apparent in the Railway Budget, and in the case of the Posts and Telegraphs Department by Rs. 38 lakhs because the recently increased rates will operate for the whole year. Salt should give us Rs. 60 lakhs extra on the assumption of normal clearances.

22. The net result of all these variations and of others which need not be specifically mentioned is an increase in the total revenue for the year 1941-42 of Rs. 2,68 lakhs, thus bringing it to the figure of Rs. 106,39 lakhs.

23. Next year's expenditure on the other hand is expected to show an advance on the revised estimates for the current year of Rs. 14,72 lakhs, of which Rs. 12,11 lakhs is on account of defence and Rs. 2,61 lakhs pertains to civil expenditure.

24. Expenditure on the Defence services for 1941-42 amounts to Rs. 84,13 lakhs made up as follows:—

	(Rs. in lakhs.)	
	Revised, 1940-41.	Budget, 1941-42.
(1) Basic normal budget	36,77	36,77
(2) Effect of rise in prices on (1)	2,63	3,65
(3) India's war measures	24,31	35,40
(4) Non-effective charges	8,41	8,41
TOTAL	72,02	84,13

The increase over the revised indicated at item (2) is due to the fact that the increases in emoluments granted as a war concession to British and Indian troops took effect from various dates in 1940-41 whereas they will be in force throughout 1941-42.

25. The growth of expenditure on India's war measures has already been explained at length. The effect of this growth on the Defence budget for 1941-42 is shown at item (3), the increase over the revised being Rs. 11,09 lakhs. Approximately half the total amount of Rs. 35,40 lakhs provided for India's war measures is on account of initial cost of these measures, the balance consisting of recurring charges. I should like here to impress upon the House the fact that in these estimates of Defence expenditure only such specific schemes and measures as are definitely under way or in sight have been provided for. Our Defence plans have to be adapted from time to time to meet the ever changing war situation, which means that additional projects are constantly being undertaken, and it is clearly impossible to make any forecast of the cost

of such unforeseeable items. The provision for non-effective charges has been retained at the normal figure for 1939-40 for the reasons already given. Here too, as I have remarked in connection with the revised estimates, the figures exclude the value of supplies and services rendered by India to His Majesty's Government. The charges borne by that Government on this account during 1941-42 are expected to be more than double the amount of India's war expenditure.

26. The rise of Rs. 2,61 lakhs in the Civil expenditure estimates is due to three main causes. First there is the natural increase resulting from provision being made for a full year's working of various schemes connected with the war which were only started rather late in the current year. Thus, for instance, the total cost of the scheme of technical training to meet the demand for skilled labour in the ordnance and munitions factories is estimated at Re. 1 crore, of which only Rs. 7 lakhs will be spent this year and the balance of Rs. 93 lakhs next year. Then there is a number of new items of essential expenditure which the Standing Finance Committee has recommended for inclusion in the Budget. These include India's share of the subsidy to this year's Haj pilgrimage to meet the extra cost due to war conditions; new civil aviation works, new Broadcasting works, including a high power transmitter for external broadcasts; and a third Mint to cope with the enormous increase in coinage demand, which will eventually replace the existing Calcutta Mint the disposal proceeds of which will go a long way towards paying for it. Then finally there is the cost of the continued expansion of the Department of Supply, which must necessarily grow along with the ever-growing demands which it has to meet.

27. The budget estimates for 1941-42 can now be summarised as follows :—

	(In lakhs of Rs.)		
	Revised, 1940-41.	Budget, 1941-42.	Improve- ment (+) Worsen- ing (—).
Net defence expenditure	72,02	84,13	—12,11
Civil expenditure	40,11	42,72	—2,61
Total expenditure	112,13	126,85	—14,72
Total revenue	103,71	106,39	+ 2,68
Surplus (+) Deficit (—)	—8,42	—20,46	..

There is thus a prospective deficit on revenue account of Rs. 20,46 lakhs, but I must here interrupt the story of our finances for next year to deal with the important question of our ways and means position.

28. The main loan issue during the year was the six-year 3 per cent. Defence Bonds, which by the 25th January, when the original issue was closed, had realised nearly Rs. 45 crores, in cash to the extent of Rs. 31½ crores and by conversion of the 5 per cent. Loan 1940-43 to the extent of Rs. 13½ crores. A second 3 per cent. Loan was issued as from the 1st February on terms rather more favourable to the general taxpayer, thus affording striking testimony to the strength of India's financial credit in these difficult times. Interest-free Bonds were also made available on tap, subscriptions to which have so far amounted to Rs. 2,31 lakhs. We are grateful to those who are in this way assisting our war effort at no cost to the revenues of India. Ten-year Defence Savings Certificates are available for the smaller man, on terms designed to carry a dual appeal, to patriotism and self-interest. In the space of 8 months the total receipts from all these Defence Loans have amounted to over Rs. 50

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crores, but much more will be required in the coming year and I would like to take this opportunity to appeal to every well-wisher of India not only to support our loans to the utmost extent of his capacity for saving but also to do all he can by way of personal influence and educative propaganda to induce others to subscribe. The benefit to the country, not only now but in the lean years which might quite possibly follow the war, as well as the value to the individuals concerned, which would result if millions of the poorer classes could be persuaded to save and lend to the Government only a few rupees each, needs no stressing. Facilities of different types have been provided to meet the varying needs of different classes. For Government servants a Defence Savings Provident Fund has been instituted which offers a ready means of making regular contributions in support of the war effort. We shall shortly have in operation a new scheme of Post Office Savings Bank Deposit accounts repayable a year after the end of the war on attractive terms as to interest, viz., 1 per cent. more than is now given on ordinary Postal Savings Bank deposits. There are also savings stamps to facilitate the purchase of Defence Savings Certificates through the accumulation of a number of small savings. The facilities are available. What we now need is the goodwill and ready help of public spirited persons to secure a widespread response.

29. The outstanding balance of the 5 per cent. Loan-1940-43 amounting to about Rs. 19½ crores was completely repaid during the current year, thereby effecting an appreciable saving in our interest charges. Next year we have to provide for the repayment of the 3 per cent. Bonds 1941 which fall due on the 15th September next, the outstanding balance of which is about Rs. 10½ crores.

30. I would now like to say something on the subject of sterling debt repatriation which has recently been brought prominently before the notice of the public by the announcement of our compulsory £90 million scheme. While the announcement has been generally, and rightly, welcomed, published comment on the scheme has disclosed a certain amount of misapprehension, a certain degree of confusion of thought, and in a few quarters a strange and totally unjustified suspicion. Repatriation of the Government's sterling debt means in essence nothing more than the buying up and cancellation of our sterling loans and their replacement by rupee loans. Nothing more, yet nothing less, for it is surely a great thing that in the midst of a devastating war which is dislocating national economies throughout the world, India should be able to secure the strengthening of her financial credit which must inevitably result from a large scale conversion of her external obligations into internal indebtedness.

31. The policy of debt repatriation is not new. It was started in 1937, but the pace was limited both by the extent of our sterling assets and by the extent to which investors could be induced to part with their holdings at fair prices. I explained in my Budget Speech last year how the growth of sterling resources resulting from our increasingly favourable balance of trade, and from the payments received in the United Kingdom on account of recoverable war expenditure, and for supplies made to His Majesty's Government enabled the process of repatriation to be expedited and extended. The only method then open to us was that of open market purchases in London, and the total amount so acquired has gradually risen to the figure of £28½ million at which it now stands. The only new features in the present scheme are, firstly the element of compulsion, and secondly and consequentially the size of the transaction. Experience has shown that most of our sterling stock was firmly held, and once the stage

was reached when most of the floating stock had been removed from the market compulsion became inevitable if repatriation were to proceed. In the circumstances, we have reason to be grateful to the British Government for their assistance in requisitioning stock held by residents in the United Kingdom for delivery to us at market prices by means of an order issued under their special war powers. Some critics have tried to create a grievance from the fact that the operation, by releasing funds for investment in the United Kingdom Loans, will be of assistance to His Majesty's Government in their financing of the war. They apparently argue that an advantage to the United Kingdom must necessarily imply an equal and opposite disadvantage to India, refusing to recognise the possibility of an arrangement being mutually advantageous to both. Such a line of reasoning, if reasoning it can be called, we emphatically repudiate. But possibly the most effective answer to biased criticism of that kind is to point out that the British Government's power of requisitioning securities is itself statutorily dependent upon some degree of strengthening of their financial position as a result of the requisitioning. I submit, Sir, that we may well feel gratified that India in improving her own position has also contributed to facilitating the war-time problems of Britain.

32. Honourable Members are aware that the present repatriation operation covers all six of our terminable or dated sterling loans, the value at present market prices of the outstandings of which is approximately £90 million or Rs. 120 crores. A considerable portion of this, probably the major portion although we do not know to what extent, will be held by residents in the United Kingdom and will thus come within the terms of the British Government's order. These holders will be paid in sterling, for which the Reserve Bank possesses ample sterling resources which it has agreed to utilise for the purpose. On the other hand an unknown portion of these stocks is held by residents in India and will come under the corresponding requisitioning order recently issued by the Government of India. These holders will be paid at their option either in rupees or in rupee counterparts of the sterling loans purchased from them. We of course do not know how far Indian holders will elect to receive payment in the form of counterparts although we anticipate that the majority will do so. Lastly, some stocks may be held by residents outside the United Kingdom and India to whom no compulsion can be applied. To such holders the Reserve Bank is making a voluntary offer to buy the securities from them at the fixed prices, which offer they will probably accept since after the repatriation has been effected any small balances outstanding in these loans will not be readily marketable. Until we get fuller information on these various points it will not be possible for us finally to determine the exact machinery for financing the operations. The financing involves Government buying sterling from the Reserve Bank and arranging for the necessary rupee funds to pay for that sterling. We know that we would be in a position to finance the entire operation even though the whole amount of £90 million had to be paid in sterling. It is certain however that sterling payments will be appreciably below that figure, although until the returns come in we shall not know, even within a margin of tens of crores, what the actual commitments will be. As regards the manner in which Government will place itself in rupee funds, we will be guided by two main considerations, *viz.*, (1) the unsoundness of paying off to an unduly large extent debts maturing some time ahead by very short term commitments such as treasury bills and (2) the undesirability of attempting immediately to secure from the investing public an equivalent amount in rupee loans of corresponding maturities and thereby depressing security prices and undermining the policy which we are following, with the co-operation of the Reserve Bank, of maintaining money at a cheap level so

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as to minimize the burden of the war. In all probability the Reserve Bank will take a fair proportion of rupee securities in its Issue Department to replace sterling assets taken from the Issue Department for the purchase of our sterling stocks. To enable this to be done the proviso to section 33(3) of the Reserve Bank of India Act has recently been repealed. The Reserve Bank may also carry a certain portion of these loans in its Banking Department, and Government may themselves carry some to the extent that their ways and means position permits. The detailed procedure will however be worked out as soon as the facts of the situation become available, in consultation with the Reserve Bank which has co-operated so readily and so promptly with the Government in financing this large and important transaction.

33. I should perhaps mention here that there is neither any necessity nor any intention to reduce the minimum percentage of the external assets which must be held by the Reserve Bank under the Reserve Bank of India Act, *viz.*, 40 per cent. of their note liabilities; nor is there any necessity, as has been suggested in some quarters, to effect a statutory revision of the price at which their gold is valued. Nor need there be the slightest apprehension about the reduction which is being made in the size of the sterling holdings of the Reserve Bank. These holdings have risen greatly since the outbreak of the war and are still steadily increasing. Even if the whole £90 million had to be paid in sterling, the sterling reserves of the Reserve Bank would still stand at about the same figures as the average sterling holdings during the last pre-war year while our external liabilities will be considerably reduced as a result of the debt repatriation. It will be obvious too that these operations do not in any way affect the size of our gold reserves nor do they involve any change either in monetary policy or in the day-to-day operations of the currency system.

34. The House will doubtless appreciate that this debt repatriation scheme, which is the largest single operation of its kind ever carried out in this country, is bound to improve the financial position of India and greatly to strengthen India's credit. By the liquidation of external obligations to the extent of Rs. 120 crores and their replacement by internal obligations India's annual external commitment is materially reduced; the embarrassment of periodical external maturities is eliminated; while incidentally our revenue position will secure the benefit of some reduction in interest payments, although at present it is not possible to estimate with any approach to accuracy what the extent of that benefit will be. The total reduction in our sterling obligations since 1935 inclusive of the present scheme will amount to over Rs. 220 crores, of which about Rs. 145 crores will have been repatriated since the beginning of the war, and our external liabilities will henceforth be of remarkably modest proportions in relation to the growing resources of India. This will be an immense advantage should occasion ever arise for India to have recourse to foreign markets for the capital it required.

35. The uncertainty and alarm created by the German military successes in Europe last summer led to withdrawals of Post Office Savings Bank deposits and discharges of Post Office Cash Certificates on a scale so large that our revised estimates for the current year provide for a net outgo of Rs. 29 crores (Cash Certificates Rs. 10 crores and Savings Bank deposits Rs. 19 crores) as against a small net credit anticipated in the budget. This unexpected and heavy reduction of our unfunded debt would have necessitated a correspondingly heavy increase in our floating debt but for the countervailing factors of

(a) a capital receipt of Rs. 12 crores from the Reserve Bank on account of the one rupee notes and silver rupees issued to them, instead of a payment of Rs. 5 crores against a return of surplus rupee coin as provided in the budget, and (b) the favourable response which has been given to our Defence Loans. In actual fact these factors would have resulted in a reduction of the value of outstanding treasury bills by about Rs. 8 crores in the current year but for the new problem which has just arisen of financing our large sterling debt repatriation operations, the effect of which on our floating debt position cannot be assessed until we have finally determined the most appropriate method of financing this transaction. For next year we are assuming a more normal state of affairs and our estimates under these heads call for no comment.

36. I must now return to the question of the gap with which we are faced between our anticipated revenue for next financial year and our estimated expenditure on revenue account. The prospective deficit stands at the substantial figure of Rs. 20,46 lakhs, the very size of which must give us cause to reflect on how serious our difficulties would have been had not the railway contribution come to our assistance to the extent to which it has. I feel, too, that I should at this point again remind Honourable Members that our estimates of Defence expenditure cover only such schemes as can now be definitely foreseen, and make no provision, lump sum or otherwise, for any further measures which changing circumstances may force upon us ; while our revenue from Customs is similarly vulnerable to any advance developments in the import situation. These considerations emphasize what the formidable size of the deficit in relation to the scale of Indian finances is of itself sufficient to indicate *viz.*, the necessity of reducing the gap at least to more reasonable proportions. I will now proceed to explain the proposals of the Government in this regard.

37. The first proposal takes account of the fact that at the present time the main economic advantage which is derived from India's war supply activities accrues to the industrial and commercial sections of the community, in consideration of which the direct taxpayer may fairly be expected to shoulder the larger share of the further burdens which have to be imposed. It is therefore proposed in the first place that profits of a further period of one year be subjected to the Excess Profits Tax, and that the rate applicable to such profits be 66½ per cent. In view of the concessions which were granted in regard to such matters as optional standard periods and depreciation it is confidently believed that the new level of the tax should neither cause substantial hardship to existing industries nor operate to impede the growth of new ones. The yield of this enhancement in the rate of Excess Profits Tax is estimated at Rs. 2½ crores. Secondly, as regards Income-Tax and Super-Tax, it is proposed that the present Central surcharge of 25 per cent. should for the year 1941-42 be raised to 33½ per cent. This will yield an additional Rs. 1,90 lakhs, giving a total increase from direct taxation of Rs. 4,40 lakhs.

38. So far as indirect taxation is concerned, the main proposal is to double the excise duty on matches. The present rate of duty was fixed in relation to a certain retail price, but changes in the retail price cannot for obvious practical reasons be finely graded but must necessarily be made by sudden jumps. Over large parts of the country the retail price has already jumped to the next higher point to the substantial advantage of the trade. The increase in duty now proposed will appropriate for the benefit of the public purse a due share of the enhanced retail price which the consumer has to pay. A corresponding increase will automatically ensue in the duty on imported

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matches, and a similar increase will be made in the duty on mechanical lighters. The additional revenue on this account is estimated at Rs. 1,50 lakhs.

39. There remains for me to mention two further proposals in the field of indirect taxation. The first is an increase in the import duty now leviable on artificial silk yarn and thread, which now stands at 25 per cent. *ad valorem* or 3 annas per pound, whichever is higher. It is proposed to increase the alternative specific duty to 5 annas per pound, and the yield of this increased tax is estimated at Rs. 36 lakhs. The second is a new excise duty of 10 per cent. *ad valorem* on pneumatic tyres and tubes. This industry which was started in India a few years ago has developed rapidly and is now well established. It already supplies a large proportion of the domestic demand in India which formerly was met by imports subject to a revenue duty of 25 per cent. *ad valorem*. The yield of this new duty is estimated at Rs. 35 lakhs, thus bringing the increased revenue in the field of indirect taxation to the total of Rs. 2,21 lakhs.

40. The total estimated yield of the new taxation now proposed thus comes to Rs. 6,61 lakhs, which brings the estimated revenue for 1941-42 to Rs. 113 crores. The position will thus be—

	Rs.
	Lakhs.
Revenue	113,00
Expenditure	126,85
Prospective deficit	13,85

The uncovered revenue deficit will of course have to be met by borrowing, which will be part of the larger programme the necessity for which I have endeavoured to explain earlier in this Speech. The uncovered deficit is still large in proportion to the general level of Central finances and in regard to the unknown contingencies of the coming year. But having regard to the heavy additional cost of our war measures, which is almost entirely responsible for the rise in our annual expenditure from Rs. 86 crores in 1939-40 to Rs. 126 crores in 1941-42, an increase of no less than Rs. 40 crores within the limited space of 2 years, the position might not unreasonably be regarded as defensible. We are passing through troublesome and anxious times and it is idle to speculate on what the future holds for us. Let us take courage from the manner in which India has so far weathered the difficulties of the past, standing as she now does with her defence position steadily increasing in strength and her financial credit unimpaired, and face with confidence whatever part may fall to her in the months that lie ahead.

The Council then adjourned till Eleven of the Clock on Wednesday, the 5th March, 1941.