

Wednesday, 28th February, 1945

COUNCIL OF STATE DEBATES

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EIGHTEENTH SESSION

OF THE

FOURTH COUNCIL OF STATE, 1945



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COUNCIL OF STATE

Wednesday, 28th February, 1945

The Council met in the Council Chamber of the Council House at Half Past Five of the Clock, the Honourable the Chairman (the Honourable Sir David Devados), in the Chair.

MEMBERS SWORN

The Honourable Sir Satyendra Nath Roy (War Transport Secretary).⁷

The Honourable Mr. Hiralal Muljibhai Patel (Industries and Civil Supplies Secretary).

PRESENTATION OF THE GENERAL BUDGET, 1945-46

THE HONOURABLE SIR CYRIL JONES (Finance Secretary) : Sir, I have the honour to present the revised estimates of revenue and expenditure of the Governor General in Council in respect of subjects other than railways for the year 1944-45 and the corresponding estimates of revenue and expenditure for the year 1945-46.

2. When presenting the budget estimates of 1944-45 a year ago I mentioned as the most outstanding feature of the previous year the economic perils and anxieties which had beset the country, as evidenced in particular by the acute speculative mania of the spring of 1943 and the distressing food crisis which supervened later in the year. I referred to the resolute action which the Government had had to take to meet these dangers, both in the monetary sphere and in the realm of commodity control, and expressed the view that the conduct of an unrelenting war against the causes and consequences of monetary abundance in the conditions created by the war ranked in importance before even the raising of the resources required for actual physical warfare. The successful establishment of the principle of drastic control and the acceptance of that principle by the vast mass of the population gave solid cause for confidence and hope for the future.

3. The year 1944 has been one of consolidation of the position then reached and its major characteristic is the relative stability which has been achieved in the economic field. Pride of place should perhaps be given to the steady improvement in the food situation throughout the country. The progressive implementation of the Government's policy in regard to statutory control of foodgrain prices, to procurement by Government or Government controlled agencies, and to controlled distribution including an ever-widening extension of rationing, has yielded results which are both satisfying and encouraging. Secondly, considerable progress has been made towards the Government's objective of general price stabilisation and the elimination of profiteering. The general level of wholesale prices, though subject to fluctuations from time to time corresponding roughly to varying estimates of the probable duration of the war, has in fact achieved a degree of stability over the past 18 months which could hardly have been anticipated in the black days of early 1943. Most encouraging of all is the increasing evidence of public resentment at anti-social activities, such as hoarding, profiteering, and corruption and of a willingness to cooperate with the authorities in their efforts to stamp them out. It is to be hoped that this growing public spirit will intensify and extend, but that it is already in evidence is beyond question. These are the fruits of those measures of economic control which were effected in 1943 and developed and improved during 1944, although the improvement in the economic situation has undoubtedly been assisted by the striking military victories which have been gained in all theatres of this global war, with their profound psychological consequences and the material advantages of the resulting improvement in the shipping position in the form of increased imports of food grains, raw materials and finished products.

4. It seems desirable here to emphasize once again that, though individual measures of the kind that I have referred to are indispensable, yet the keystone of our defences, apart from our taxation and loan programmes, lies in the conscious restriction of expenditure by the mass of individuals. Though certain classes of

[Sir Cyril Jones.]

the population have suffered, and continue to suffer, from the fact that their incomes have not yet become fully adjusted to the higher level of prices, yet large and very important classes of the population are now in receipt of money-incomes very much higher than those which they previously enjoyed. The consumers goods which they desire are not yet available and, except in so far as the additional incomes which have been generated by the war are amenable to taxation, the only possibilities are abstention from expenditure and lending to Government. Naturally, at the present time, the latter is the more completely satisfactory solution ; not only does such lending greatly assist Government in its anti-inflationary campaign, but it marks a break with the age-old tradition of hoarding, which may well be an even greater obstacle to the rapid progress of India than many of the factors which are more frequently mentioned.

5. I will now briefly review the final results for the financial year 1943-44 as compared with the revised estimates which were presented to the House last year. Civil expenditure fell below our anticipations by the moderate sum of Rs. 84 lakhs, while total revenue was Rs. 2.44 crores below the revised estimates. Income-tax collections actually credited to the revenue account were Rs. 8.86 crores less than we had expected, but railway receipts improved considerably in the latter part of the year from which general revenues benefited to the extent of Rs. 5.37 crores. Central excise duties also showed an improvement of Rs. 1.77 crores mainly under sugar and tobacco as the result of a lag in adjustments of which we had no knowledge when the revised estimates were framed. Defence expenditure exceeded the estimates by no less than Rs. 95.76 crores. The main reasons for this large excess were, firstly, the fact that much of the fighting against the Japanese took place within India's frontiers instead of wholly outside those frontiers as anticipated and, secondly, an unexpectedly heavy adjustment in the accounts of the year in respect of mechanically propelled vehicles and their spare parts utilised for the initial equipment and maintenance of India's local defence forces. Other contributory reasons were a late decision that all indigenous expenditure on petrol, oil and lubricants used for India's expansion purposes should be the liability of India, and also increased demands for supplies and services on reciprocal aid terms to the forces of the U. S. A. in India. In the result the revenue deficit, which in the revised estimates was expected to be Rs. 92.43 crores, proved in the final accounts for the year to be Rs. 189.79 crores.

6. In the current year, 1944-45, total revenue receipts are now expected to be Rs. 356.88 crores, an improvement of Rs. 48.60 crores over the budget estimates. Customs receipts are expected to improve by Rs. 12 crores as a result of larger imports made possible by the general easing of the shipping position. Of this amount, Rs. 2½ crores are accounted for by the import of locomotives and wagons. Under Central Excises, however, there is a shortfall of some Rs. 2 crores, mainly under tobacco, caused by transport difficulties and by reduced cultivation as a result of the drive in favour of food crops. Taxes on income were expected to yield Rs. 182.5 crores, Rs. 78 crores from excess profits tax and Rs. 104.5 crores from other taxes on income. The progress of regular excess profits tax assessments has been stepped up so that we now expect collections under this head to reach Rs. 110 crores. There is, however, likely to be a fall of Rs. 4½ crores under other taxes on income which are expected to yield Rs. 100 crores. The net improvement anticipated under the head "Taxes on Income" is thus Rs. 27.5 crores. The divisible pool of income-tax has been taken at Rs. 61.13 crores and the share of the provinces at Rs. 26.56 crores or Rs. 2.87 crores more than the budget figure. An improvement of Rs. 2.56 crores is anticipated under Currency and Mint due mainly to Government's share of the surplus profits of the Reserve Bank increasing from Rs. 7.50 crores to Rs. 10.07 crores. The revenue of the Posts and Telegraphs Department is now estimated at Rs. 28.78 crores, that is, Rs. 86 lakhs more than the budget figure. Expenditure is placed at Rs. 19.46 crores, an increase of Rs. 2.85 crores. The anticipated surplus of Rs. 9.32 crores will accrue to general revenues. The contribution from Railways to general revenues has, for reasons already explained to the House, been stabilised for the current and ensuing years at the figure of Rs. 28 crores.

7. Coming now to the revised estimates of expenditure for the current year 1944-45, the defence services have first claim on our attention. The House is aware of the military, naval and air successes which have been won by the forces of the United Nations on all fronts, which in the course of a single year reduced the territories held by the Axis by about one-third and caused devastating losses to the navy and merchant fleet of our Eastern enemy. Of special significance to India are the developments in the S. E. A. theatre. These failed to follow the course envisaged at the time of my last Budget Speech. Before any major offensive based on India could be launched against them, the Japanese took the initiative and committed almost their entire resources in Burma to a large scale assault on India's North Eastern frontier. Some of the bitterest and fiercest fighting of the war followed, largely on Indian soil, but the months of rigorous training in jungle warfare, which had been given to our forces, now paid magnificent dividends and, as the House knows, the Japanese suffered a major and decisive defeat. As a result the whole of Northern Burma has now been delivered from their control. India may well be proud of the magnificent part played by her forces of all three services in these great events.

8. I shall now briefly refer to other important developments in the field of defence which have taken place in India during the past year. There have been a number of improvements in the terms and conditions of service affecting all arms. Certain improvements in the rates of proficiency pay of Indian other ranks that were in contemplation a year ago have since been sanctioned with effect from the 1st January 1944. Improved scales of basic pay and batta for Viceroy's Commissioned officers were also introduced from the 1st April 1944. The Government of India have recently extended to personnel of the British Services in the India Command the war service increments of pay sanctioned from 3rd September 1944 by His Majesty's Government for such personnel in other theatres. They have also sanctioned similar increments for personnel of the Indian services with effect from the same date. Substantial improvements have been made at considerable expense in the medical arrangements for dealing with sick and wounded in India, and particular attention too is now being paid to the rehabilitation of wounded men to enable them to take the fullest possible part in their subsequent civilian roles. Then, again, during the cold weather of 1943-44 plans were made whereby the Defence Services would produce much of the supplies of fresh provisions required for their own consumption. These plans have now matured, and by the end of the year the Defence Services will be largely self-supporting in fresh vegetables and potatoes while the output of other items such as poultry and eggs will have been multiplied many times. These arrangements should exercise a salutary check on the prices of such produce in the country at large.

9. The improvement in the quality of the Indian Air Force continues. The most recent development is the introduction of the famous Spitfire aircraft, and one squadron equipped with these will shortly be given an active operational role as a fighter squadron. The 9th squadron of the Indian Air Force was formed on the 20th February 1944 and the formation of the 10th is under consideration, but unless recruiting improves this will not be possible.

10. The Royal Indian Navy continues to grow and further progress has been made in the construction of training establishments and holding depots. Apart from its work in the defence of India's ports and coasts, the Royal Indian Navy is playing a considerable role in the escort of shipping and general policing duties in Indian waters. It has given invaluable support and protection to the land forces in the recent operations on the Eastern Front in which its landing craft have played a major part.

11. India continued to receive goods and services from the United States of America under Lend-Lease arrangements and, in return, to grant Reciprocal Aid in various forms of supplies and services as explained in my speech last year. The demands for such aid have been heavier than was anticipated last year, particularly in regard to works (mainly airfields), petrol and aviation spirit. To some extent this was due to the increased activities of the U. S. Forces in strafing the Japanese on India's North Eastern Frontier. The estimated cost of Reciprocal Aid to be afforded at India's expense to the U. S. A. for which provision has been made in

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these estimates is Rs. 76.33 crores during 1944-45 and Rs. 70.34 crores during 1945-46. The value of such aid furnished in the year 1943-44 amounted to Rs. 35.11 crores and the total cost to the end of 1942-43 Rs. 12½ crores, so that the progressive total of Reciprocal Aid from the beginning of the war to the end of 1944-45 would on these estimates amount to about Rs. 124 crores. At present the great bulk of Reciprocal Aid afforded to the U. S. A. in India is charged to Indian revenues and only a relatively minor amount of such aid (*e.g.*, that relating to certain non-indigenous supplies) is financed by His Majesty's Government and treated as British Reciprocal Aid. The total amount of supplies and services expected to be made to India under Lend-Lease arrangements up to the end of 1944-45 is now estimated at roughly Rs. 515 crores and the value of these supplies and services which India, but for Lend-Lease, would have had to provide at her own expense is now assessed at approximately Rs. 150 crores. It is impossible to make any similar estimate for the year 1945-46 as the extent of Lend-Lease granted during that year must necessarily depend on war developments both in the European and the Eastern theatres. There seems no reason, however, to think that the value of Lend-Lease aid received by India to the end of that year will fall short of the corresponding amount of Reciprocal Aid to the United States of America.

12. During the year under review India signed a direct Mutual Aid Agreement with the Government of Canada which entitles her to participate in the benefits of Mutual Aid accorded by the Canadian Government to the Allied Nations. The precise effect of this Agreement upon India's defence expenditure has not yet been finally ascertained in the absence of complete information regarding the amount of such aid to be made available but, in framing the revised and budget estimates, a reduction of Rs. 5 crores has been allowed on this account in the estimates of each year.

13. Mention was made in my speech of last year of the necessity for ensuring that India's economy was not subjected to an intolerable strain as a result of its employment as a major base of operations against Japan. As the House is aware, a Mission under Sir Akbar Hydari has recently gone to London and is now examining in detail the extent to which demands for commodities required for war purposes, hitherto placed on India, can be met from other sources, and further what goods badly needed here can be sent out in order to offset the general depletion caused by war demands. It is hoped that this Mission will succeed in bringing much-needed relief to India's economy.

14. During the year the negotiations with His Majesty's Government that have been in progress for some time past regarding the allocation during the war of non-effective charges—*i.e.*, pensions and gratuities paid to personnel of the defence services and their dependants—were concluded and an agreement between the two Governments on the subject has now been reached. Prior to the outbreak of the present war each Government received from the other contributions in respect of so much of the pensions and gratuities of their own armed forces as were reckoned to have been earned in the service of the other Government. Since under normal conditions the number of British service personnel employed in India far exceeded the number of Indian service personnel employed at Imperial stations, the net result of these adjustments was a substantial annual payment by India to His Majesty's Government. This process necessitated the maintenance of an elaborate non-effective account and the continuous collection of detailed information regarding the service of many thousands of officers and men. During the last war it was found quite impossible to keep up this non-effective account, which had therefore to be held in abeyance, and the settlement of numerous claims and counter-claims in respect of non-effective charges relating to that war formed the subject of prolonged correspondence and eventually—though not until 1931—had to be made in a more or less arbitrary manner. It was felt most desirable to avoid a similar long-drawn-out controversy over the non-effective charges arising out of the present war. The matter has been examined at great length by technical experts on both sides, and the agreement now reached may be summarised as follows :

(1) The non-effective account between the two Governments to be finally closed as on the 1st April 1939, India's net liability towards His Majesty's Government

for the non-effective charges of all defence personnel on that date being discharged by a lump sum payment of £15 millions.

(2) India's net liability thereafter during the war to be fully discharged by an annual payment of £1,350,000 to His Majesty's Government.

(3) Each Government to bear the cost of those casualty pensions and other abnormal non-effective charges arising out of the war, which are sanctioned under its own regulations.

(4) The new agreement to be coterminous with the main Financial Settlement, a fresh agreement to be negotiated thereafter.

It is felt that this non-effective agreement has the great merit of simplicity while securing an equitable apportionment of the charges in question between the two Governments. The agreement provides for the payment of the sum of £15 millions on the date of its termination. Recently His Majesty's Government enquired whether the Government of India would be disposed to pay this amount in advance of that date and offered to reduce the annual payment of £1,350,000 by £450,000 as from the date of such premature payment. As this offer seemed to the Government of India a favourable one it has been accepted and the payment was made on the 1st February 1945, from which date the annual payment will accordingly be reduced to £900,000.

15. It is now necessary to consider the effect of these developments on our estimates of defence expenditure for the current year. The Financial Settlement accepted in 1940 was the target for a great deal of abuse—much of it extremely ill-informed—by the press both in India and in the United Kingdom during the year. As was no doubt inevitable with any arrangement of this character, the criticism has been vehement and has proceeded from diametrically opposite points of view. It still remains, however, our sheet-anchor for the purpose of determining India's share of war expenditure. Under the operation of that Settlement India becomes liable for a considerable amount of additional expenditure arising out of the Japanese invasion at the beginning of the year. In framing the budget for 1944-45 it had been assumed that operations against the Japanese would take place outside India and, in consequence, that no portion of their cost would fall on Indian revenues, which, on the other hand, would be relieved as a result of the sending of forces beyond her frontiers to take part in those operations. In the event, not only had forces earmarked for employment overseas to be retained in India but others were brought in from outside to repel the invader, and no provision existed in the budget for the cost of all these troops or for the other additional expenditure incurred on these operations for which India is liable. This constitutes one of the major causes of the heavy excess of the defence expenditure for the year over our budget anticipations, but I trust the House will realise that this is a small price to pay for the victory which has assured to India immunity from the Japanese invader.

16. Other major developments that could not be foreseen a year ago and for which consequently no provision was made in the budget are :—

(1) The grant of war service increments and other pay increases to both British and Indian troops during the year ;

(2) heavy demands from the U. S. A. Forces in India for goods and services on Reciprocal Aid ;

(3) the decision that India would be liable for the indigenous element in the cost of imported petrol utilised for her own war purposes. As mentioned in my speech last year, His Majesty's Government offered to bear the cost of petrol and aviation spirit required for the expansion of India's land and air forces, but this offer, it has since been made clear, will only cover the cost landed at an Indian port, leaving the expenses of distribution in India to be borne by India ;

(4) the payment of the sum of £15 millions in connection with the Non-Effective Agreement.

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17. The revised estimates of defence expenditure for the year 1944-45 amount to Rs. 397.23 crores and Rs. 59.41 crores under the Revenue and Capital heads respectively. The details are as follows :—

	Revenue Portion	(In lakhs of Rupees).	
		Budget	Revised
(1) Basic Normal Budget		36,77	36,77
(2) Effect of rise in prices		15,05	16,92
(3) India's war measures		215,58	334,22
(4) Non-effective charges		9,21	9,32
	Total	276,61	397,23
<i>Brital Portion</i>			
(1) Air force—Airfields		10,00	15,89
(2) Capital outlay on industrial expansion		2,00	3,34
(3) Reciprocal Aid-airfields		5,20	15,20
(4) New construction for the R. I. N.		1,60	1,00
(5) Capital outlay on tele-communication scheme		5,80	3,98
(6) Lump sum payment under the Non-Effective Agreement			20,00
	Total	24,60	59,41

In the revenue portion, the increase of Rs. 1.87 crores in item (2) over the corresponding budget figure is due mainly to the grant of further increases in pay and allowances to the forces in India. The increase of Rs. 118.64 crores in item (3) is due to the major developments just mentioned and to an under-estimate of the cost of air services in India. The total increase has been counter-balanced to a certain extent by an increase in the amount of receipts on account of Lend-Lease stores supplied to Provincial Governments, Railways, Posts and Telegraphs Department and other paying indentors, and also to the relief anticipated from India's participation in Mutual Aid from Canada.

As regards the capital portion, the increases under items (1) and (3) are due to further demands for new airfields and the improvement and expansion of existing airfields for both British and American Air Forces in India. There have been further expansions of ordnance factories, dairy farms, etc., which account for the increase under item (2), while the decrease under item (5) is due largely to a carry-forward of expenditure connected with the Tele-communication Scheme to the year 1945-46. Item (6) represents the lump sum payment under the Non-Effective Agreement which I have already explained.

18. Turning now to a consideration of civil expenditure in the current year, the House will doubtless appreciate that the continuance of war conditions and, at the same time, the need for planning for the transition period and the days of peace ahead, inevitably involve an increase in governmental co-ordination and control, which is reflected in increased expenditure. The civil estimates now stand at Rs. 115.42 crores compared with Rs. 86.38 crores provided for in the budget. Of the increase of Rs. 29.04 crores Rs. 12 crores are accounted for by self-balancing items. Honourable Members will find details of the variations in the Explanatory Memorandum on the Budget and I shall confine my remarks here to a few of the more important items.

19. Provision for Rs. 1½ crores was made in the current year's estimates as Central assistance to Bengal for meeting their heavy expenditure on famine relief. Representations were, however, received from the Provincial Government that the grant was inadequate and the position was reviewed. It was finally decided to make an *ex gratia* subvention of half of the direct cost of the famine, subject to a maximum of Rs. 10 crores, of which Rs. 3 crores had already been adjusted in 1943-44. This decision is responsible for an increase of Rs. 5½ crores in expenditure this year.

20. Another important item is the expenditure involved in paying compensation for damage resulting from the explosions in the Bombay Docks in April last. The House is already familiar with the measures for the relief of the victims announced by the Government of India last May. The machinery for dealing with claims is at work and steady progress is being made in disposing of them. At present it is not possible to assess accurately the total amount which will be involved, but provision has been made for an expenditure of Rs. 10½ crores this year and Rs. 5½ crores next year. The question of the incidence of this expenditure is under consideration and, pending a final decision as to the sharing of the cost between India and His Majesty's Government, it has been decided to meet the sums involved from general revenues, at the same time transferring from the War Risks Insurance Funds to the revenue account amounts equal to the estimated compensation payable.

21. Considerable revenue expenditure as well as capital outlay has had to be incurred in pursuance of the Government's food policy. That policy covers the drive for increased production of foodgrains; increasing procurement by Government or through Government agencies towards the objective of monopolistic government procurement; extension of rationing, which now covers some 42 million people; and statutory control of prices at a level which will ensure adequate production without imposing too heavy a burden on the consumer.

22. The same objectives of increased production and control of distribution and of prices have been pursued in the field of other consumer goods. Price control of cloth has been extended to cover both the imported and exported varieties and a progressive reduction in prices has been achieved. At the same time the problem of the stabilisation of the prices of Indian cotton within suitable limits has engaged Government's close attention and, in fulfilment of their undertaking to maintain the price above the fixed floor, Government entered the market and purchased during the current year some 2½ lakhs of bales valued at over Rs. 6 crores.

23. The activities of the Supply Department have been directed towards the fulfilment of the same policy. An organisation has been set up in Calcutta for increasing the production of coal and ensuring its equitable distribution among the consuming interests. Schemes for the payment of a bonus to colliery owners on increased raisings and for open-cut mining have been introduced, while facilities have been provided for the import of labour into the coal areas and welfare officers have been appointed to look after the interests of mine labour.

24. The scheme for financial assistance to evacuees and their families has been continued and extended. These measures are now estimated to cost a little over Rs. 1 crore more than the budget provision.

25. There is another matter which should be mentioned, namely, India's contribution to U. N. R. R. A. The House has already agreed that India should participate in this administration and in implementing that decision, the Government of India have decided that India's contribution should be Rs. 8 crores. A sum of Rs. 1.10 crores has been expended in the current year, and it is proposed to provide for the remaining Rs. 6.90 crores in the next year's estimates. This sum will be transferred to a special fund to prevent budgetary inconvenience in the future.

26. Lastly, there is the question of the ameliorative measures necessary to mitigate the hardships caused to Government servants by the continued rise in the cost of living. The scheme of dearness allowance to low-paid Government servants was substantially liberalised in March 1944, and its cost this year is expected to be Rs. 3½ crores in respect of Central Government servants other than those paid from Railway and Defence estimates. The Government also came to the conclusion in the course of the year that certain other Government servants, who had so far received no cash relief, must also be given an allowance to enable them to meet their essential commitments. The Government have therefore given, with effect from 1st July 1944, a war allowance at 10 per cent. of pay to married officers drawing pay up to Rs. 1,000 and at 5 per cent. of pay to single officers whose pay does not exceed Rs. 750. The Government keep under constant review the problems connected with the rise

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in the cost of living and its effect on Government servants of all classes, and proposals for increasing the scope and extent of the relief already afforded are at this moment under active consideration. Until a decision has been arrived at it is not possible to evaluate the extra expenditure likely to be involved. The estimates are, therefore, based on the existing scales of relief.

27. The revised estimates for the current financial year 1944-45 can now be summarised as follows :—

	(Rupees in lakhs)	
	Budget	Revised
Net Defence expenditure (revenue portion)	276.61	397.23
Civil expenditure (revenue portion)	86.38	115.42
Total expenditure	362.99	512.65
Total revenue	308.28	356.88
Deficit	—54.71	—155.77

28. I pass now to a consideration of the estimates for the coming year, 1945-46. Total revenue we place at Rs. 353.74 crores compared with Rs. 356.88 crores in the revised estimates for the current year. We have assumed a rise of Rs. 12.85 crores in Customs revenue in expectation of additional imports including a large number of locomotives and wagons. Under Central Excise Duties we look for an improvement of nearly Rs. 6 crores, half of which is under tobacco. We estimate the total collections of Corporation Tax and Income tax at Rs. 190 crores. This includes an expected yield of Rs. 90 crores from Excess Profits Tax, the forecast for other taxes on income being the same as the revised estimate for the current year, viz., Rs. 100 crores. The divisible pool of income-tax has been taken at Rs. 57.07 crores and the share available to provinces at Rs. 24.04 crores.

The revenue of the Posts & Telegraphs Department is expected to be Rs. 30½ crores and expenditure Rs. 20 crores, inclusive of an extra contribution of Rs. 50 lakhs to rehabilitate the Renewals Reserve Fund. The surplus is estimated at Rs. 10½ crores, the whole of which will accrue to general revenues.

29. The budget estimates of defence expenditure for 1945-46 amount to Rs. 594.23 crores and Rs. 17.76 crores for the Revenue and Capital heads respectively. The details are as follows :—

Revenue Portion

	(In lakhs of Rupees)	
	Revised 1944-45.	Budget 1945-46.
(1) Basic normal budget	36.77	36.77
(2) Effect of rise in prices	16.92	19.76
(3) India's war measures	334.22	328.51
(4) Non-effective charges	9.32	9.19
Total	397.23	394.23

Capital Portion

(1) Air force—airfields	15.89	2.42
(2) Capital outlay on industrial expansion	3.34	1.55
(3) Reciprocal aid—airfields	15.20	10.74
(4) New construction for the R. I. N.	1.00	50
(5) Capital outlay on Telecommunication scheme	3.98	2.55
(6) Lump sum payment under the Non-Effective Agreement	20.00	..
Total	59.41	17.76

In the revenue portion, the increase of Rs. 2.84 crores over the revised estimate in item (2) is due to the effect over a full year of the grant of increases in pay and allowances to the forces in India sanctioned during 1944-45. In regard to item (3) there is a reduction of Rs. 5.71 crores as compared with the revised estimates which is the net result of various increases and decreases. The principal increase

is due to the cause just mentioned, while the decreases are the result of (1) a decrease in the 'ceiling' forces certified by H. E. the Commander-in-Chief to be necessary for the defence of India during 1945-46 and (2) the fact that no repetition of large scale operations within India's frontiers is expected in 1945-46. The decrease of Rs. 41.65 crores under the capital portion of the budget estimate, apart from the omission of the non-recurring lump sum payment of Rs. 20 crores under the Non-Effective Agreement, is due to the fact that the requirements in the matter of air-fields, etc., for India's local defence air forces are expected to be largely completed in 1944-45, while a reduction during that year in the programme of airfields construction for the U. S. A. air forces in India, for the cost of which India is liable, has also been assumed. The provision made against item (5) represents the carry-forward of expenditure on the Tele-communication Scheme into the year 1945-46.

30. Civil expenditure during 1945-46 shows an increase of approximately Rs. 8 crores as compared with the revised estimates for the current year. This is due mainly to an increase of Rs. 11½ crores under the head "Interest" resulting from the policy of borrowings to absorb surplus purchasing power, offset by savings under other heads. In the Explanatory Memorandum Honourable Members will find full details and I will not weary the House with further analysis at this stage. The expenditure estimates also contain sums in connection with post-war planning to which I shall refer more fully at a later stage.

31. I would like to take this opportunity of bringing specifically to the notice of Honourable Members the expansion that has been progressively effected in recent years in the Explanatory Memorandum on the Budget. The Memorandum circulated with the General Budget in the year 1939 consisted almost entirely of a series of financial statements with but very little by way of explanation. The Explanatory Memorandum now circulated is a pamphlet of practically double that size. A statement has been added showing the variations between the budget estimates for the current year, the revised estimates for the current year, and the budget estimates for the ensuing year, with full explanatory notes in respect of the variations under the several revenue and expenditure heads. Much interesting statistical information is appended, such as the contributions made by the Centre to the Provinces in respect of Income-tax, the composition of currency and mint and other miscellaneous receipts, the principal items of "small savings", and a breakdown of the figures under "Other sources of revenue". Illustrative statements have been included summarising the more important details of revenue and expenditure under "Posts and Telegraphs", and also an analysis of the transactions included in the expenditure head "Interest". An arresting picture of the expanded activities of the Mints is provided by the statement showing the output of the Mints by numbers of coins, by denominations, and the figures of absorption of small coin. Detailed information is given regarding the interest-bearing obligations and interest-yielding assets of the Government of India. A second part has been added to the pamphlet showing variations in price indices, cost of living indices, trade and industrial conditions and currency circulation, with a coloured chart depicting important price trends during the period of the war. Part III shows at a glance the income-tax payable on various grades of income according to the latest proposals. The Explanatory Memorandum has thus developed into a compendium of valuable and useful information, both financial and economic, which it is hoped will provide a background to a study of the Budget and assist Honourable Members in mastering the intricacies and technicalities of the accounts.

32. The revenue position for the coming year 1945-46 can conveniently be summarised as follows :—

	(In lakhs of Rupees.)	
	Revised, 1944-45	Budget, 1945-46
Net Defence expenditure (revenue portion)	397.23	394.23
Civil expenditure (revenue portion)	115.42	123.40
Total expenditure	512.65	517.63
Total revenue	356.88	353.74
Deficit	—155.77	—163.89

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We are thus left with a prospective deficit on revenue account of Rs. 163·89 crores. It is at this point which precedent ordains that I should deal with the ways and means position.

33. Last year I explained the changed significance of the ways and means position in the conditions created by the war and endeavoured to bring into relief the complex economic problems created by war disbursements as well as the extent to which Government are able to re-absorb, by way of taxation and borrowing, the ever-growing quantities of moneys expended by them. In the figures which are published from time to time of Government's rupee balances is reflected the extent to which these and other operations of Government succeed in bridging the gap between our own budgetary requirements and the total outlay on Allied account. Borrowing is now the mainstay of our ways and means programme and during the past year no effort has been spared to stimulate lending to Government by the several sections of the public. The total amount invested by the public in various forms of public loans reached Rs. 286 crores during the twelve months from the 1st February 1944 to the 31st January 1945. The Government have, in consultation with the Reserve Bank, framed their borrowing programme so as to make available to the public a wide range of securities. The 3 per cent. loan 1953-55 (4th Defence Loan) was closed for public issue as from the 1st April 1944, after the total subscription had reached the record figure of Rs. 114·55 crores during its currency of nine months, and, in its place, the tap issue of the First Victory Loan, 3 per cent 1957, was opened. This issue had, up to its closure on the 17th February, yielded about Rs. 110 crores. The demand from banks for a short-term Government security was met in June by the creation of a special re-issue of the 2½ per cent. Loan 1948-52 to the extent of Rs. 50 crores. Continued demand from institutional investors for a long-term loan was also met by the further creation in October of Rs. 35 crores of the 3 per cent. Funding Loan, 1966-68 so as to replenish the stock of this loan held in the Government Cash Balance Investment Account. The generally steady conditions in the Government securities market led to a continuous improvement in the price of 3½ per cent. Paper, which reached par for the first time during the war on the 16th November, 1944. At this stage, it was considered desirable to meet the demand from existing stock, and during the period mentioned above, paper worth Rs. 15·11 crores was sold by the Reserve Bank of India on Government account. As in the previous year, Rs. 13·27 crores of new money was subscribed to certain provincial loans floated to repay a part of the Provincial consolidated debt to the Central Government.

34. The main difficulty in the monetary field is that arising from the unfamiliarity of the rural classes with the various forms of investment in Government securities which are a matter of such every day concern to institutional investors and the urban public generally. In this field we have been fortunate enough to secure the willing co-operation of the Provincial Governments as well as non-official organisations, whose assistance we gratefully acknowledge. Net investment in the various facilities provided for small saving is now proceeding at the satisfactory rate of nearly Rs. 3 crores a month, due to some extent to the raising of the rate of interest on Savings Bank deposits and, in a larger measure, to the scheme of small savings evolved last year by the National Savings Commissioner.

35. Our floating debt, which was Rs. 111 crores at the end of last year, stood at Rs. 93 crores on the 31st January 1945. This is an improvement of a kind one would expect, since the Government's ways and means position from the strictly budgetary point of view must be regarded as very comfortable. The reason why it has not proceeded much further is that we have continued till recently to offer fairly large amounts of treasury bills to the public in order to prevent the structure of money rates being disturbed by an excessive release of funds invested by banks in treasury bills.

36. Satisfactory as these results are, with the expected prolongation of hostilities near our borders, it is obvious that we cannot afford to relax our efforts. The requirements of the situation will impose the continuance and possibly even the final intensification, of India's war effort, which includes the finding of the resources

required for the war effort of the Allied countries. In other words, the problem of the inflationary gap is still with us, and, judging from recent indications, may call for increased vigilance and control. As I have already said, the Government's various anti-inflationary measures were sustained, and in places extended, during the year and have resulted in a position of comparative stabilisation in recent months. There is also evidence that the low rate of turnover of bank deposits characteristic of last year has been maintained, and that there has been, through the greater part of the year, some slackening of, the general pace of monetary circulation. There was moreover a very marked decrease in the rate of currency expansion, particularly in the first eight months of this year. In the last two months the results have not been so favourable; an indication that we cannot afford to relax our efforts to ensure that surplus purchasing power arising out of Governmental disbursements is canalised into public saving.

37. The Reserve Bank continued to effect sales of gold on behalf of His Majesty's Government and the Government of the U. S. A. and these contributed substantially to the reduction of the inflationary gap. Sales of Lend-Lease silver which were commenced in the middle of the year have further aided in mopping up surplus resources which do not find their way to Government loans.

38. The United Nations Monetary and Financial Conference consisting of representatives of forty-four nations met in July in the United States, and, as the House is aware, India was represented at the Conference by a Delegation under the leadership of the Honourable the Finance Member. The main conclusions of the Conference relating to the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development are recorded in Articles of Agreement to which none of the Governments is as yet committed. The Articles are incorporated in a Final Act of the proceedings of the Conference which has been published. The Indian Delegation have recently submitted their report to Government which will be made available to Members of the Legislature when, in due course, the conclusions of the Conference come to be reviewed in the light of the action taken on them by the principal countries concerned, in particular by the United States and the United Kingdom.

39. Honourable Members will remember that the Bretton Woods Conference negatived the proposal put forward by the Indian delegation for partial multi-lateral clearance of war balances through the machinery of the International Monetary Fund on the ground, primarily, of the limited size of the Fund in relation both to fluctuations in current international trade transactions and also to the magnitude of the war balances. The question of India's sterling balances thus remains one for settlement by direct negotiation between India and the United Kingdom, and was discussed in an informal and preliminary way by the Honourable the Finance Member with His Majesty's Treasury officials in London after the termination of the Conference. Since many of the material data were still incomplete and uncertain, particularly the exporting capacity of Great Britain in the immediate post-war years on the one hand, and the development requirements and absorbing capacity of India on the other hand, these conversations were necessarily directed towards exploring the background for future discussions and the indication of a suitable time-table for more definite negotiations. The vicissitudes of the war in the West have, unfortunately, disturbed the provisional time-table foreshadowed at these talks, and it is not now anticipated that any negotiations can be usefully entered upon until after the end of the war with Germany. In view of the lack of definition at this stage of our own development programme, the delay may perhaps not be prejudicial to India's interests. Indeed, it may well prove necessary that any negotiations to be carried on should in the first instance be of a tentative character and should secure both parties an agreed opportunity for review at a later stage when firmer data may be expected to be available.

40. In the meanwhile, sterling continues to accrue from market purchases and from payments received in London on account of recoverable war expenditure incurred by the Allied Governments in India. During the last eleven months of

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the current financial year, £248 millions were added to the Reserve Bank's holdings, and it is estimated that allowing for the receipts during the last month of the year, the total holding as on the 31st March 1945 will be of the order of £1,030 millions. It is hoped, however, that the rate of accrual will be slowed down in future both by the diversion of some of the demands now made on India to other sources of supply and by an increase in compensatory imports.

41. With the virtual completion of the scheme of repatriation of sterling liabilities of the Government of India, including payments on account of railway and railway debentures, there was only limited scope for the utilisation of sterling during the year, with the exception of £15 millions for the capitalisation of a portion of India's Non-Effective charges and of £10 millions for the acquisition of the M. & S. M. Railway, the S. I. Railway and the B. N. Railway. The outstanding sterling liabilities of Government now stand at about £11 millions. The holders are mostly residents of places situated outside the area covered by the Vesting Order, although small amounts continue to be tendered occasionally.

42. I referred last year to His Majesty's Government's willingness to set aside each year, as a special case, a part of the dollars accruing from India's export surplus to the U. S. A. an amount earmarked specifically for India's post-war development. After a very careful examination of the current figures and tendencies, we have agreed to accept an amount of \$20 millions for the calendar year 1944 and a similar amount for 1945, subject to a re-examination later in the light of the relevant statistics for that year. This figure is, of course, in addition to what we need for current requirements. In agreeing to it, we have recognised that it was both reasonable and necessary, with a view to ensuring the stability of the sterling system in which we are so closely interested, that we should continue to make some contribution to the replenishment of the sterling area reserves, which had been depleted in the common war effort. On the other hand, we have naturally been anxious to make some immediate tangible provision for foreign exchange for the purchase of capital goods likely to be required for India's post-war development purposes, and we feel that the arrangement described represents in the circumstances a fair and valuable concession to this point of view. The relevant figures will be under periodic review and the House may rest assured that at no stage will India's direct interests be subordinated to interests other than those in which she herself has a greater, although indirect, interest.

43. In the matter of planning for post-war development much progress has been achieved during the past twelve months, and the creation of a separate department at the Centre for this purpose and of suitable planning organisations in the Provinces and States bear witness to the determination of the various governmental authorities in this immense country that the end of the war will not find them unprepared for the major campaigns of the peace to follow. It is obvious, however, that, so long as war conditions continue, not only in India but in all the Allied countries, resources of materials and manpower must remain mobilised for the immediate task of achieving victory. Once that task has been accomplished and the inevitable period of adjustment has passed, it will be possible to initiate the execution of plans for post-war development. These physical limitations to the superimposition of a forward policy of national development on an economy subjected to the strain of total war have their counterparts in the financial sphere. So long as the financial and currency system of the country is overstrained in the maintenance of the war effort or in securing the early stages of transition from war to peace, heavy new expenditure on national development schemes would be dangerous in the extreme. In other words, a vast scheme of national development can hardly be imposed on a war-time economy. The first year or two at least after actual fighting ends will inevitably be for the Centre years of heavy deficit on revenue account. It will be during this period that the Provincial Governments will find of particular value the post-war Reconstruction Funds which they had the foresight and determination to build up while the war was still in progress.

44. While it is indubitable that large scale development projects cannot be initiated so long as war conditions continue, the Government have no hesitation in

embarking at once on such preparatory work as is found to be possible and desirable, or in taking any action calculated to secure early results of anti-inflationary value. Thus of late the Government have set up a Central Electrical Power Board, an Irrigation and Waterways Board, a resettlement and re-employment directorate with a network of employment exchanges, and have established numerous panels of industrialists assisted by Government personnel to prepare plans for industrial development. Plans have been laid for high level technical training abroad, and steps have been taken to set up a Rs. 10 crore Government fertiliser factory to produce annually 350,000 tons of ammonium sulphate. This general policy the Government intend to continue and provision for Rs. 1 crore has been made in the Budget for such measures of a like nature as may be found practicable. This provision is over and above that included in the budgets of the various administrative departments for their planning activities.

45. I mentioned last year that if any effective development is to take place on the requisite scale in this vast country large amounts of money are bound to be involved; with the obvious corollary that the first pre-requisite of reconstruction finance is a sound financial position, both at the Centre and in the Provinces, secured by the fullest development of their respective taxation resources. That proposition I would submit hardly admits of dispute. A vast scheme of national development of the kind contemplated by public leaders and writers and by the Government, has to be planned for, worked for and paid for. It is essential therefore that not only the Centre but also the Provinces should lose no time in developing to the full their financial resources, since it is clear that the combined resources of all will hardly be adequate for the great end in view. For that reason the Government feel that those Provinces which made an early start and taxed themselves considerably in excess of their immediate revenue requirements should not, as a result of the favourable financial position in which they find themselves, be prejudiced in the matter of financial assistance from the Centre. It is hoped that in due course a substantial distribution of Central revenues will take place, but the Provinces will in addition need all that they themselves can raise if the financial foundations of future development are to be sufficiently broad-based to carry the contemplated load. It is in this context that any proposal for the levy of an Estate Duty should be viewed. For a measure of that kind, together with the recent expansion of commodity taxation, should be regarded as the first concrete step towards the building up of a planned and expanding financial system for the future. The reaction of the country to measures such as these will surely constitute the first real test of the seriousness of its intentions in the matter of post-war development. The second effective test will be the response to the Government's efforts to establish a national habit of saving which, with the denial of current consumption which it involves, will be as necessary for development purposes after the war as it is for holding inflationary tendencies in check during the war.

46. I come now to the Government's proposals for the year immediately ahead. Against a total estimated expenditure, military and civil, of Rs. 517.63 crores, the total revenue at the existing level of taxation is estimated at Rs. 353.74 crores, leaving a revenue deficit of Rs. 163.89 crores. If the whole of this gap were left to be filled by borrowing, the pattern of India's sixth war budget would probably challenge comparison with that of any belligerent country. But, as was explained in detail last year, the wider interests of the country both present and future demand the strengthening of its financial and economic position by having regard not only to the budgetary deficit but also to what may be called, for short, the inflationary gap. Although the persistence of an excess of total rupee outgoings over total rupee incomings gives continual cause for anxiety, we have now reached a stage when no really significant improvement can be effected by any practicable major change in the sphere of Central taxation. The scope for further improvement in this field would seem to be rather in the direction of greater efforts to combat evasion and in the enforcement of existing tax obligations. The Government are hopeful that they will have the support of the Legislature and the country in that policy. For the best, reliance must be placed on the expansion of our borrowing programme and on the response of the public, born of the gradually widening appreciation of its

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importance to the maintenance of the economic health of the community, and assisted by the operation of the various controls.

47. In the sphere of direct taxation, it is proposed to continue the excess profits tax at the present rate, together with the scheme of compulsory deposits, for a further year up to the 31st March 1946. As regards income-tax the Government have given considerable thought to the problems which will shortly arise in regard to the financing of the re-equipment of industry. Our scheme of war-time taxation has throughout been so devised as not to deplete, but on the contrary to strengthen the reserves at the disposal of industry for meeting the calls which will be made upon them in the post-war period. Nevertheless the restoration and expansion of the machinery of production will call for some new form of assistance, and the Government feel that they are justified in adapting to Indian conditions the measure of relief which has been announced in the United Kingdom. This will take the form of the grant of special initial depreciation allowances in respect of new buildings erected, and new plant and machinery installed, after the 31st March 1945. These allowances will, in the year in which they are given, be an addition to the usual depreciation allowances, and they will not be deductible in arriving at the written-down value. They will not be given for excess profits tax purposes. It is proposed to prescribe these allowances by rule but the figures contemplated are 20 per cent. on plant and machinery and 10 per cent. on buildings. Allowances at these rates, in addition to the usual rates, should provide substantial encouragement for the early re-equipment of industry. It is also proposed to allow for income-tax purposes expenditure on scientific research. The proposals follow generally the provisions in the United Kingdom Finance Act, 1944. They are, in brief, the allowance of current research expenditure as it is incurred, the allowance of payments to recognised research bodies and institutions and the allowance over a period of five years, or over the life of the assets if shorter, of research expenditure of a capital nature. Provisions for these reliefs, as well as for earned income relief which I will now explain, are contained in a Bill to amend the Income-tax and E. P. T. Acts, which is being brought before the Legislature.

48. Differentiation for income-tax purposes between incomes that are earned by personal exertion and incomes that are not so earned has long been a feature of the taxation systems of many countries, including England and the U. S. A. It has been somewhat aptly described as the only method by which the depreciation of the human machine can be adequately recognized in taxation. Recent developments in India have emphasised the inequity of the identical treatment of earned and unearned incomes, and this is an appropriate time at which to introduce this distinction into our system. The Finance Bill provides that there shall be an exemption of one-tenth of earned income subject to a maximum (in terms of income) of Rs. 2,000. The Income-tax Amendment Bill to which I have referred contains provisions for giving effect to this proposal. The exemption will be given only in respect of income which may be described as derived from personal exertion and will not therefore apply, for example, to the income of companies or in respect of dividends, interest on securities or income from property. It will be given only for income-tax and not for super-tax. The cost of this earned income relief is estimated at about Rs. 3½ crores. To make up for this loss it is proposed to increase by 3 pies the surcharge on slabs of income above Rs. 15,000 and on incomes taxable at the maximum rate. This increase will not apply to life insurance companies whose combined rate of income-tax and super-tax will continue to be 63 pies. It is estimated that this small increase will yield about Rs. 4 crores.

49. In the sphere of indirect taxes, the customs surcharges which are being levied for revenue purposes during the present abnormal conditions will be continued for another year. In the central excise tariff a further change is proposed in respect of tobacco. The improved shipping situation has enabled the limit placed on the proportion of imported tobacco in the more expensive types of cigarette to be raised from thirty to seventy per cent. It is accordingly now proposed that the highest class of flue-cured tobacco in the excise tariff should be subdivided into three and

should be subjected to a duty of seven rupees eight annas, five rupees, or three rupees eight annas a pound, according as it is intended for use in the manufacture of cigarettes containing more than sixty per cent., more than forty but not more than sixty per cent., or more than twenty but not more than forty per cent. by weight of imported tobacco. Minor changes include a parallel increase in the rate of duty on flue-cured tobacco intended for any purposes other than those specified in the tariff. Complementary changes to these will be made in the Customs Tariff, where the standard rate of duty on unmanufactured tobacco is being raised to seven rupees eight annas a pound, with no surcharge, and the rates for related items—cigars, cigarettes and manufactured tobacco—are being re-fixed so as to correspond. These changes, which will come into effect immediately by virtue of a certificate under the Provisional Collection of Taxes Act, are expected to result in an increased revenue of Rs. 3.6 crores under Excise and Rs. 2.4 crores under Customs, a total of Rs. 6 crores.

50. The only other change included in the Finance Bill this year relates to postal parcels, the traffic in which continues to increase at a rate with which it is difficult to cope. The rate, which is now 6 annas for the first forty tolas and 4 annas for every forty tolas thereafter, will be raised to a uniform 6 annas for every 40 tolas. It is also intended to raise the surcharge on telephone rentals from one-third to one-half, and that on trunk call fees from 20 per cent. to 40 per cent. The surcharge on ordinary and express telegrams will also be increased by one anna and two annas respectively. The total additional estimated yield of these increases is Rs. 1.35 lakhs.

51. Excluding the effect of the proposals for relief to industry in respect of re-equipment and scientific research, of which no reliable estimate can be made at this stage, the changes in taxation and in postal and telegraph rates will yield an estimated increased revenue of Rs. 8.60 crores, which would reduce the prospective deficit to Rs. 155.29 crores.

52. That, Sir, completes the picture of the budget for the coming year, but I cannot conclude this speech without a reference to the impending departure from this country of the Honourable the Finance Member. To me personally his going will bring a feeling of great personal loss. No man was ever privileged to work for a kinder or more considerate master, whose imperturbable courage and unflinching good humour have proved an inspiration to the Department in his charge through six long years of difficulty and stress. But to a much greater extent, I venture to think, will Sir Jeremy's departure be a loss to India, in whose best interests he has toiled so long and so faithfully, at a cost of personal strain and anxiety which few are in a position to judge better than myself. His six-year stewardship of the currency and finance of this country has witnessed many changes of the very first importance, which the House would hardly thank me to enumerate in detail. Sufficient tribute is it to say that under Sir Jeremy Raisman's able guidance India has so far been brought through the storms, strains and stresses of a prolonged and exhausting war to a position on the international stage never before attained and a financial strength which will constitute the surest foundation for that future greatness which is the hope of all her friends. (*Applause.*)

Mr. CHAIRMAN (the Honourable Sir David Devadoss): Honourable Members, I am requested to remind you that there will be a group photograph taken on the 7th March, and you are requested to be present before 10-30 A.M.

The Council then adjourned till Eleven of the Clock on Wednesday, the 7th March, 1945.