

HOW INDIA PAYS

For the

WAR

by

K.T. SHAH

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No. 1

How India Pays for the War

How does India pay for this War? Prof. Shah answers this question by reviewing the methods of war financing adopted in other countries: and, in the light of that experience, examining the Budgets of taxation and borrowing following one another in this country.

His main theme, however, is the invisible, but insupportable, burden of Inflation, which he calls concealed taxation. He considers it from every angle, and condemns it from every standpoint. Not content with condemning, he indicates remedies, which all crystallise in the demand for a national government and an independent rupee.

Incidentally the book examines critically the latest plans for a World Currency Union, or an International Clearing House. India may join either, provided she does so by her own free will, and is able to regulate her currency and exchange by her own authority, without dictation, influence or interference from outside.

The author also considers critically the nature and working of the Lease-Lend system, and shows how India has already contributed not much less than $\frac{3}{4}$ of what Britain has received under the Lease-Lend system from the richest nation of the world, without getting anything like a fraction of the credit the United States get for their aid to Britain.

All this is due to the absence of a truly national and popular government in India. The demand for it consequently echoes through every section as an unending refrain. For the sake of the people, for the success of the war effort, for enduring peace after victory, a popular, national government in India, commanding the confidence of the masses of her people, and seeking the true, lasting, long-range benefits of the country, in finance as in currency, in industry as in commerce, in peace as in war, is the *sine quo non* for an effective solution of all the problems of war or peace.

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K. T. SHAH



PRATIBHA PUBLICATIONS
PEOPLES' BUILDING,
SIR PHIROZSHAH MEHTA ROAD,
BOMBAY, I.

OTHER WORKS (in English) OF PROF. K. T. SHAH.

1. Sixty Years of Indian Finance (1921); 2nd Edition (1928)
Supplement (1935)
2. Indian Currency, Exchange, and Banking, (1922)
(out of Print)
3. Trade, Tariffs and Transport in India, (1923)
4. Governance of India (1924) (out of Print)
5. Wealth and Taxable Capacity of India (1925) (out of Print)
6. Constitution Functions and Finance of Indian Municipalities
(1926)
7. Russian Experiment 1929.
8. Post-War Germany 1928.
9. Federal Finance in India 1929.
10. World Depression 1933.
11. Post-War Price Movements 1934.
12. Provincial Autonomy 1937.
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14. Industrialisation of the Punjab 1940.
15. Principles of Planning 1943.
16. India's Place in Post War Reconstruction 1943.
17. Splendour That Was Ind. 1930.

PAMPHLETS.

18. Ethics of Public Debt. 1930.
19. Eleven Points of Mahatma Gandhi, 1930.
20. Report of the Congress Select Committee, Vol. II, on the
Foreign Obligations of the Government of India.
21. Public Services in India (Congress Jubilee Pamphlet) 1936.
22. Agrarian Charter, 1937.
23. Evolution of Fascism in India (1934).

A few copies of most of the above works are still available. To the purchaser of a copy of this work, 'How India Pays for the War,' copy of the Sixty Years of Indian Finance (price Rs. 10/-), together with the Supplement Re. 1/-) will be sent for the inclusive price of Rs. 10/- for the set of 3 books, postage extra. Please refer to this note, while ordering the set. Copies of others of these works can also be had from the Pratibha Publications, Peoples' Building, Sir Phirozeshah Mehta Road, as well as from the Popular Book Depot, Lamington Road, Bombay-7.

TO

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LIQUIDATE REALITY. AND REALISE ?

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PREFACE.

The substance of the following pages originally appeared in a special article in the ID number of the 'Morning Star', subsequently expanded in a series of Articles, entitled **War Finance in India in World War II,** in the 'Bombay Chronicle, in October, 1942. The subject, however, admits of so many developments, almost from month to month, that its handling, once again, in March, 1943, in a series of public Lectures, delivered under the auspices of the Bombay Stock Exchange, provided fresh opportunity to review, expand, and bring uptodate the points made earlier in the Articles. Those Lectures make up the bulk of this work. The Budget of the Government of India, presented on 27th February, 1943, was referred to in those Lectures, while still more recent developments are included in the following pages. The Lectures, being delivered orally, are not possible to reproduce verbatim in these pages, which, therefore, embody only their substance.

Neither the newspaper Articles, nor the public Lectures, offered a suitable medium for statistical evidence, without which such subjects cannot be handled satisfactorily. In this publication, therefore, a number of statistical tables have been inserted, which, though referred to in the Articles, as well as in the Lectures, appear in print and in detail for the first time here. They will, the writer hopes, help to make the train of reasoning more real and intelligible.

Though cable reports of an International Monetary Conference in London, early in March last, were available at the time the Lectures were delivered, official summaries of the specific Plans proposed, by Britain and by America, were not known. They have since been published; but details are even now not available in

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India. Since, however, the subject of a World Currency Union is of vital interest to India, the delay, unavoidable in preparing the Lectures for the press, has been utilised to incorporate a review of the salient features of these proposals, and their reaction upon the national economy of India, in the following pages. They reproduce, substantially, the articles on the subject appearing in the 'Bombay Chronicle' in April-May, 1943.

The substance of these pages having grown from Lectures and newspaper articles, it has not been possible to split up the matter into specific chapter or sections of the work, as it now appears. Convenient section headings have, however, been inserted to facilitate closer study.

The title of the main subject has had to be changed from time to time. Neither the title given to the series of 'Chronicle' Articles of last year, nor that to the Lectures delivered under the auspices of the Stock Exchange, could do justice to the items included in these pages. It has, therefore, been deemed proper to alter the title, and make it as closely expressive of the substance as possible. "How India Pays for the War" will, the writer feels, meet the requirement more adequately.

Bombay, May Day, 1943.

K. T. Shah.

According to a cable dated Washington, May 25, 1943, a letter of President Roosevelt to Congress stated the total of Lease-Lend aid received since its commencement upto March 31, 1943, by China, India, Australia and New Zealand, put together, to be \$736,759,000. The amount of such aid, therefore, received by India alone, during the same period cannot be over \$300 Million. The Note on page 154 must be accordingly amended.

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INTRODUCTION.

When I was invited by the Stock Exchange authorities to deliver an inaugural address, the choice of a suitable subject presented no very great difficulty. I chose the subject of **War Finance and Taxation** as obviously the most appropriate to the occasion, as well as to the Association. Not only to the Members of the Stock Exchange; but to the public at large in this city, and perhaps all over the country, the most absorbing topic of interest to-day, the subject arousing the most direct, intimate, personal concern, is war and all its consequences, implications, and repercussions.

IMPORTANCE OF THE SUBJECT.

The importance of the subject is due as much to the (a) vast extent of the field of war, (b) the totalitarian character of the struggle, (c) as to the infinite variety of reaction upon those not directly yet involved in the war, including generations yet unborn.

(a) Two thirds of the earth's land surface, three-fourths of its population, nine-tenths of its industry, are in the grip of the struggle. Every land is a deathtrap, every sea a danger zone, every sky a battle ground for the aerial navies of the world grappling in the blue. We in this part of the country may have provided, perhaps, smaller numbers of men, as compared to some other provinces, for actual fighting; and may have had a smaller *pro rata* share of emoluments and opportunities, the sorrows and sufferings, arising out of the War.

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The absence of authoritative information on the subject makes it impossible to say; but, in view of our smaller numbers, if not our less martial traditions, we may assume it to be likely. But even if that be the case, the stake and concern of this side of the country, in organising and mobilising its resources, and providing the funds as well as the material needed to carry on the struggle, is second to no other unit's in this country.

Considering our limited capacity, the contribution of India cannot be classed as inferior, in men as well as material, in blood as well as treasure, to that of any other country in the United Nations, except China, Russia, Britain and the U.S.A. Figures will be given later on in these lectures which will show you how high is our share of the burden and sacrifice in a struggle, which is not of our making; which is not our concern, in which we have no hope of any gain, spiritual or material.

(b) The subject is the more important and interesting because of the totalitarian character of the War, and the corresponding nature of the effort made to meet the emergency. Not a soul in the warring countries, not an activity of their people, not a phase of their life, individual or collective, but is affected intimately, profoundly, enduringly. The entire man and woman power of the countries directly engaged in fighting has been mobilised, trained, disciplined, armed and equipped for actual fighting, or for the services incidental to fighting. Those who are not at the front, are working behind the lines round the clock, without a break or a breathing spell, in industries and services ministering to the infinite variety

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of war demands. Every industry is controlled; every commodity rationed; every service regulated. Commerce between nations has almost ceased to be, because of the war. Trade within the country is a bewildering maze of priorities, because of the war. There is no thought of personal comfort, no chance for self-indulgence. Every moment of the daily life of men and women and even children is touched and coloured by, and must be consecrated and dedicated to, the moloch of War.

And if this is true only of those communities themselves engaged in the struggle, with their full consent, and their heart and soul and spirit, it is true quite as much of those, who, like us, are lugged into the fight merely as inanimate appendages of an insatiate Imperialism. We cannot escape the tentacles of this monster of cruelty and destruction let loose upon the earth. Our trade and industry and finance have been handicapped, obstructed and diverted increasingly. Our manpower is also being drawn upon by the million in ever increasing number. Every budget sees new and ever growing deficit; every year witnesses new and ever more exacting burdens of taxation. The consciousness is growing larger and wider and deeper every day, not only of the immediate burdens, but also of the implications and consequences that stretch far away in an endless corridor of the future, affecting the lives of generations yet unborn.

(c) The problem of financing a War of these dimensions must needs, therefore, raise issues, and involve consequences, that cannot perhaps be all perceived or appreciated to-day. In a country like India, brought into the War not by the clear consent of its

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people, but by the force of its connection with an Imperialist power dragging it along, the complications are even more bewildering than those elsewhere; because of the political factor impinging upon the economic. Though the War has not been a freely chosen obligation of our people, there is not much doubt of the sympathies of the leaders of our country. They stand for democracy and national freedom; and would fight against the forces of aggression and reaction, if only they had the right and the chance and liberty to do so of their own free will. We have raised land forces of nearly two million men, with all their auxiliary services. We have doubled, and doubled, and doubled again the navy; and multiplied the air force beyond all recognition. This effort, striking as it is, could have been multiplied ten times, if only our leaders could feel a sense of freely shouldering the responsibilities of civilisation. Our financial contribution has been, as these lectures will show, in proportion. It might have been even larger, and the suffering and sacrifice entailed much less, but for the same handicap. But the consequences of what has already been done we ourselves, and the generations following, will have inevitably to deal with and suffer from.

PECULIARITIES OF THIS WAR.

This colossal struggle is peculiar, and stands in marked contrast with all other wars of former times, not only by its world-wide extent and totalitarian character; it has wrought a much greater destruction of material wealth than of human life, — proportionately speaking. The wholesale bombing of industrial centres, with the

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consequent destruction of innumerable factories and workshops, including their stocks of raw materials or finished goods; the setting fire to untold number of buildings, both public and private; the endless toll of the submarine, — when totalled up, makes such an incredible figure of loss and damage and destruction, that we may well wonder if, even after years of unremitting toil, we shall be able to make good the loss, and rehabilitate the world. Because of this loss and damage, the world's productive capacity will be materially diminished; and its recuperative ability proportionately reduced.

Death of men by the million in their prime of life, is there in abundance; and maiming. Suffering untold, starvation incredible, misery unfathomable, are there in every home in almost every land. But the loss of life is, in comparison, not so considerable. But the loss of life and damage to human bodies, such as they are, have affected the world's productive possibilities in no less marked a manner. The dead are dead, and their places at the worker's bench empty,—perhaps for years to come. The wounded and the disabled, even if alive, would be unable to work; or their worker's contribution but a fraction of what it would have been, had they been whole and sane. But their demand will be all the greater because of their very disability. The result will be that, with productive equipment damaged, material destroyed, energy crippled and reduced, we shall yet have to meet a larger and ever larger demand for years to come, not only to supply the wants of the actual generation, but also to pay for the follies and losses of the generation preceding. The process of restoration, rehabilitation,

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and reconstruction will be correspondingly halting, exacting, and prolonged.

HOW INDIA IS CONCERNED.

We, in this country particularly, even if we have not entered the war of our own free will, have been committed to it by our rulers. We are, consequently, engaged and concerned in it as intimately and thoroughly as any of the belligerents. We have raised a huge host of men, at the rate of 70,000 per month over two millions, of all arms and in every branch of fighting service, together with their full complement of auxiliary services. We have to feed and clothe, pay and train, arm and equip, transport and maintain, all these forces. The withdrawal of such large members from the land, in a country where agriculture is the main occupation, creates its own problem, which is further emphasised by the intensive and increasing demand for foodstuffs as well as raw materials for our own expanding war industry, and the increasing demands for supplies from our allies. Our productive organisation has felt the spur of war; and our system of consumption is rapidly feeling its weight. If actual hostilities are not yet waged on our soil, our armed forces are yet not outside the ravages of war. If the maximum of our manpower is not yet mobilised, it is not for lack of equipment for such vast numbers as we could provide. Even after the American giant has stirred itself into a frenzy of war production, the countless hosts that India can put into the field would need arms and ammunition and equipment, which even America cannot supply, even assuming her ally Britain would consent to arming the masses of India without a demur-

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rer. If our productive organisation is not yet geared to meet such stupendous demands, it is not because India lacks in resources; or Indians lack in skill, or the will to victory. It is, here also, because, for their own selfish reasons of Imperialist exploitation and capitalist greed, our rulers had deliberately kept our resources undeveloped, our manpower untrained, our potentiality unexplored to their maximum so as to meet a struggle of this magnitude. That is why we feel unduly heavily the strain of the effort already made; and that is why we are apprehensive of post-war problems, which threaten to be more exacting and complicated than anywhere else in the world.

Despite all this, war has for the moment gripped the entire economic life of this country. The sympathies, of the Indian people are, in the main, unmistakable. They are naturally on the side of those who profess to fight for national freedom, economic emancipation, and social justice. This does not mean that they are ignorant of the wiles of Imperialist diplomacy, nor unaware of the recurrent divergence between verbal, and even written, professions in times of need, and actual practice in the day of victory. We had made in the last War a mighty contribution, — a million men, sent to the Empire's battle fields; crores spent from our pauper's purse on the War; and a free gift made, in addition, of Rs. 190 crores to the British Exchequer. In return we got — the Rowlatt Act; the Jallianwala Bagh massacre; and the Reverse Councils, which, after strangulating our export trade, cost us a direct treasury loss of some 40 crores. History has already been repeating itself in this War as regards our contribution. The return for it is

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yet in the womb of time. But if one is to judge from what has happened since August last, aerial bombing of open towns may not remain the sole monopoly of the Nazis in Poland. Imperialism is the same everywhere, and in every age, whether it speaks through a Pilate, or a Linlithgow.

But this War, when all is said and done, is a conflict of ideologies, a struggle between two different ways of living, in ordered civilised society. Bitter as our experience has been of the devious ways of Imperialist diplomacy, disillusioned as we may have become by repeated frustration of all our legitimate expectations, we still feel that, in this war of ideals, with allies or associates like Russia, China, or the United States, we must stand by the cause of freedom and democracy. War is war, of course, a sight of humanity at its lowest. Lust for imperialist domination is there; and so, too, the greed for capitalist gain. But these we hope are the remnants of a rapidly vanishing epoch. The age of individualism is decaying fast. The civilisation of the Chosen Race, the master folk, the dominant personality, is crumbling; and the Nazi Fuhrer, or the Fascist Duce are but the last brilliant flame of a dying fire. The future is not for competition, but co-operation; not for exploitation, but for mutual aid; not for exclusiveness, but for social equality and distributive justice. And for that the democratic foundation is indispensable. Even, therefore, if some important elements on the side of the allies, may be fighting the Nazis with mental reservation when they make perfervid professions in the name of national freedom and human equality, the clash of basic ideals can

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only end in the triumph of social justice, — if not in this War, then in the next.

SCOPE OF THE LECTURES.

In these two lectures, therefore, I propose to consider the problem of War Finance in general, and the specific measures adopted to solve it in other countries, as well as in this. Time permitting, an attempt will be made to present Indian war financing in proper perspective. The first lecture will outline the issues involved, examine the magnitude of the problem, and review the various methods adopted to solve them. The second will deal specifically with taxation and other devices employed in India, consider their volume, incidence and reaction upon public and private economy, and glance at the consequences of these devices in adjoining fields.

To grasp the true nature of the problem, we must remember that this is a totalitarian war, in which no aspect of the life of the individual and of the community remains untouched. It is a war, moreover, in which every human activity has become progressively mechanised. War is being waged more and more by machines and tools, and no longer a matter of physical strength and courage of the men engaged in fighting. The supply of these tools and machines, and of the materials, the factories and workshops to keep them replenished, has become of overriding importance. The production and movement of these tools and machines and material to the actual theatre of war is of supreme importance to those concerned with its direction. The problem of financing it is, consequently, not a problem simply of

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paying the soldier's wage, finding him food and clothing, or moving him to the theatre of hostility. It is a problem of all these, and much else besides. It is a problem of maintaining, and even expanding or improving, the entire national economy of production and consumption, of commerce and credit and communications, of distribution and taxation, of control and regulation of every activity ministering to, or concerned with, the War and its aftermath.

LIABILITY OF INDIA FOR JOINING IN THE WAR.

Before considering the traditional methods of financing such a war, let us cast a glance at the question of India's liability to be directly involved in this struggle. Without it, a true appreciation of the actual effort made is impossible.

This question may be considered from an ethical, a constitutional, and an economic, point of view.

ETHICAL GROUND.

Considering the question ethically, it must be premised that this war is not of our seeking. It has been brought about almost entirely by European rivalries and imperialist competition, to which India has made no contribution whatsoever. We have no say in such matters; and so, even if we have in our midst any jingo elements, they have no scope to express or assert themselves, — except as mere mimics of the British Imperialist. The War is the direct descendant of the Treaty of Versailles, just as Nazism is the lineal off-spring of French intransigence and British opportunism. In neither have we any

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part or lot. Much less, therefore, were we concerned with the incidents and circumstances that have precipitated the conflagration. India can, therefore, have no responsibility for this War or all its antecedents.

India has, further, no concern in it, — except, of course, as a compulsory part of the Empire. Lugged into the war as an appendix of that conglomerate, without the consent of her people, India must nevertheless bear the brunt of the bluster and blunders of British Imperialist statesmen. At the same time, we are certain to be rigorously kept out of the benefits, if any, of such adventures. Being neither responsible for its origin, nor concerned in its benefits, nor a freely consenting party to its decision, India cannot be rightly charged with any liability for this war and its consequences, at the bar of the ethical world.

The British Imperial Government, having decided the question on their own hook, have, nevertheless, claimed the known sympathies of the Indian leaders, as justification for their taking India with them in this struggle. But the leaders, even those who are the most unyielding in their antagonism to any form of Nazi or Fascist reconstruction of society, have, at the same time, not the slightest illusion about the intentions and pretensions of imperialistic diplomacy. India has an experience of a century and more of British imperialism. The experience of the last war itself, not to go any further backward, would be sufficient in this regard. For though we had made a heavy contribution in men and money and materials in a purely European struggle for the survival of rival imperialism; though we were given handsome

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promises of our national emancipation and autonomy, when the day of reckoning came, a sad disillusionment awaited us. We were denied our dues, if not deceived; frustrated and obstructed; and at every step made to feel the heavy hand of imperialist exploitation. The most sanguine of the spokesmen of India could not but see the futility of any hope of obtaining any benefit for this country, — any compensation for the sufferings and sacrifice it had undergone, — except in so far as it suited Britain's own interest for window-dressing to the rest of the world, and for more effective exploitation in this country.

Mere ideological sympathies, moreover, however considerable in deciding the free choice of a nation, are not the same thing as an active participation. The United States, notwithstanding the clearest possible enunciation of their sympathies, remained non-belligerent, if not neutral, for twenty-seven months after the war had commenced in Europe. They did not enter the struggle on their own until they had themselves been attacked by another Imperialism, threatening their own position and interests in the Pacific. Spain of Franco is even now neutral, though no one can doubt where its sympathies lie. Even Italy was a non-belligerent for nine months after the war had started, notwithstanding the closest alliance with Germany. India could, therefore, have felt and even manifested its sympathies, in some material manner short of going to war on her own. That would have been spontaneous as well as more substantial. But the example of the Irish Free State, remaining neutral while the rest of the British

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Commonwealth is at war, is no inducement to the British Imperialist Statesmen to leave India the freedom to decide for herself, even while they themselves profess to be fighting this war for national freedom and individual security.

I would like to guard against this point being interpreted somewhat cynically. I do not wish in the least to suggest that India, left free to decide for herself, would not have gone to war; or that, if she did, she would seek material gain for herself from the misfortunes of her neighbours. Britain, and Europe, have done us too many wrongs, — of the spirit as well as of the matter, — for us to feel any too heavy a load of conscience, if we stood aloof in her present troubles. But this is not a war of England alone. It is a fight for all humanity, in which the very existence of modern civilisation is at stake. This is not a time to remember or pay off old scores. Besides, in a war of these dimensions, it is not possible for any country to remain utterly unconcerned, and carry on the process of its own enrichment without let or hindrance. Even to the extent the process is feasible, we need not seek any definite material gain for ourselves out of the misfortunes of mankind as a whole. Remaining neutral, with deep sympathy on one side taking a substantial shape, we could nevertheless avoid making any undue or improper advantage for ourselves; and at the same time guard ourselves from unnecessary dissipation of our resources.

The possibility of recovering any portion of the war losses from the vanquished is also open seriously to question. Those defeated in this war will be less able

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to bear the burden of their own losses and ravages, intensified by that of their conquerors, than in the last war. Their resources being shattered or impaired, it would be a marvel if they are able to meet their own immediate demands to rehabilitate their shattered economy, and resume their normal life, for years after the War. The victors, too, having suffered, — perhaps no less than the vanquished, — they would need all their remaining strength to regain their pre-war position. Even if they are generously inclined after the War, they would not be able to afford the luxury of human charity. But, in any case, the Roman policy of *'væ victis'* is unthinkable, except in a very small measure.

The world economy, moreover, tends to become more and more unified and correlated. No one country or community can, therefore, expect to progress, if another of its fellows remains backward, and acts as a drag upon its neighbours.

It is, besides, physically impossible that the enemies of to-day could succeed in wiping out completely one or the other of them from the face of the earth. However thorough the final victory in the field may be, it could only affect at most the armed forces actually opposing each other. The rest of the community, on either side, not actually engaged on the battle front, will not only survive; it will, in one form or another, have to be maintained and set upon its legs again to resume its normal economic activity, as part of the contribution to the wealth of the world. Whether that contribution be in excess of the community's own requirements, or in deficit, is not a matter for discussion just now. What

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is important is that it is absurd to assume that the Allies, no matter what their strength or victory, would be able to eliminate entirely the demand from the whole people of Germany, Italy, their satellites in Europe, and their ally in the East. And, conversely, the same may be said with regard to the people of Russia, the British Empire, or the American Continent, if the Axis powers win. Neither annexation nor indemnity, in any shape or form, will thus be practicable. But even if any share of this is exacted by victorious allies, India can have no hope of obtaining the least portion thereof.

CONSTITUTIONAL CONSIDERATIONS.

(b) On the ethical ground, therefore, it is clear that India is not bound on any account to participate in the struggle. On the purely legal or constitutional side of the question, it is open to argument whether any liability does attach on this country to be involved in the War merely as an appendage of the British Imperial Government. The Indian constitution is an act of the British Parliament. Before 1935, it had provided a bar against the use of any part of India's revenue or forces for military operations outside her frontiers, except for repelling an invasion. Notwithstanding this provision, it was not difficult for the British Government to make their subservient Government of India join in their extra-frontier Imperialist operations, and European entanglements whenever it suited them. India has spent untold blood and money in these so-called frontier expeditions, Afghan wars, and other Caesarian ventures forced upon her by the exigencies of British Imperialism. Seldom was a word of protest raised to check, — much less to

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prevent, — such enterprises, far beyond the frontiers of India,—in Egypt, in South Africa, in China, or Burma. To maintain the letter of the law, financial arrangements were shown to have been made which easily avoided the technical, legal objection mentioned above.

Notwithstanding this provision of her constitution, in World War I, India was involved from the start of the adventure. Indian troops were sent abroad by the hundred thousand; Indian monies spent by crores upon crores, far, far away from her frontiers. And as though that was not enough, the Government of India made a free (?) gift of £130 millions or 190 crores, for which the only return we got was the thanks of the British Parliament! One may well ask: Can the thanks of Parliament condone a breach of the law, — in spirit, if not in the letter? Can resolutions of both Houses of Parliament legalise that which in inception was not in conformity with the law?

From the Government of India Act of 1935, however, even this nominal restriction has been abolished. The defence of India is a strictly reserved subject, in the sole discretion of the Governor-General. It has been increasingly interpreted as an integral part of the British Imperial problem. In any war Britain's imperialist diplomacy necessitates, India could, and would, be automatically involved, if the British Imperial Government so desire. The gifts or contributions, said to have been made in recent years by Britain towards the cost of India's normal defence, for mechanising her forces, and particularly as part of the Chatfield recommendations, have no explanation except that they are part of

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the Imperial liability. The standing provision on account of defence in India is explicable, for all practical purposes also, as an integral part of the aggregate imperial defence of Britain and her Dominions. The involvement in these gigantic European Wars is the price we have, consequently, to pay for such intimate identification with British Imperialism.

ECONOMIC ASPECT.

(c) On this basis, indeed, the question of India's own consent does not arise. But at the same time, and for the same reason, those responsible for dragging India into the war cannot expect the Indian war effort to be of the same magnitude, the same intensity, and the same thoroughness that it might have been, had the people been a freely consenting party to such participation. When one considers India's contribution to the present war effort, in proportion to the aggregate effort being made; when one remembers the potentialities of this vast country, and contrasts them with the results obtained so far, one cannot help wondering if, had the Indian people been a free and willing associate, the effort could not have been much greater. India has no *'quid pro quo'* to expect from the war — certainly no material gain or territorial accession to expect. On the economic side, the equilibrium is utterly absent.

Be that as it may, the liability has been taken for granted, and is in actual operation. India is drawn into the war; and all the intricate questions about the amount, and the share of the burden she should bear, are to be resolved by a working agreement between the British

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Imperial and the subordinate Indian Government, concluded soon after the War broke out.

From the practical point of view, therefore, the only question is whether the arrangement made for ascertaining and allocating India's share of the cost of the war is the fairest that could be devised in the interests of this country; and whether the working of that arrangement is such as to maintain the degree of reasonable fairness originally intended. For, if once it is assumed that India is to be involved in the War, it would be inevitable to find many items of expenditure and liability that would be incurred and defrayed in common with Britain and other allies. And these will be mutually so closely involved as to make it all but impossible to determine the precise share of each of the participants. Some kind of a working arrangement is, therefore, indispensable if an innumerable host of intricate problems of accounting alone is to be avoided.

PROBLEM SOLVED BY AGREEMENT.

It was realised, even from the start, that not only would India have to bear a considerable expenditure for expanding her own military, naval, and aerial armaments, together with their incidental or accessory services and supplies; but that it would have to make considerable loans of such forces, services, facilities and supplies to the British Imperial Government, to fight in the latter's battles far beyond the shores of India.

In addition, since this is a war much more of machines and materials than even of actual human fighting, the war time effort would mean a considerable

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expansion in the industrial output and productive organisation of the country, so as to produce or procure the necessary supplies of war materials needed both by the Indian and British forces. The accessory services of transport, — together with its adjuncts like harbours, aerodromes, railway terminals; — banking and credit, would have also to be re-oriented to meet wartime needs, and suit wartime conditions. The element common in all these to the British and the Indian share of the war effort would be, naturally, very considerable. Precise accounting and allocating of each would be proportionately difficult. And hence the necessity and utility of a working arrangement.

This agreement began (a) by assuming a certain figure to be the normal defence provision for India's own needs. This was fixed at the figure of the defence budget, — effective charges, — in 1938-39, the last pre-war year, — Rs. 37.77 crores.

(b) To this basic figure certain additions had to be made on account of the rise in prices, — which should also be a charge upon the Indian Exchequer. In the first year, 1940-41, it was taken 'ad hoc' at .25 lakhs; but has since grown till, in the revised estimates in 1942-43, it was Rs. 8.61 crores; and in the Budget for 1943-44, it is taken at Rs. 10.62 crores.

(c) Apart from this, it was felt a very much larger figure would be necessary on account of India's own special measures, including additions to the armed forces of all kinds and their auxiliary services of all description, as well as supplies, munitions, and facilities needed for

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them on a very much larger scale. In the first War Budget this item was taken at Rs. 3 crores, again an 'ad hoc' figure., but it has been rapidly growing; so that in 1942-43 it is now estimated to amount to Rs. 135.96 crores; while in the Budget for 1943-44 it is taken at Rs. 127.01 crores. This is, of course, exclusive of the capital cost of such measures, which amounted, according to revised estimates of 1942-43, to Rs. 49.14 crores, and are budgeted at Rs. 16.85 crores in 1943-44.*

(d) The last item was the maintenance cost, — or rather a share of it, of the Indian troops sent overseas to fight in the Empire's battles, — a fixed figure of Rs. 1 crore. The equity of this charge is not easy to understand.

*cp. Para 28 of the Budget Speech, 27th February, 1943:—

"An analysis of the expenditure covered by those estimates brings out the fact that it contains many elements of a capital nature against which tangible and valuable assets are held. The principal items falling into that category are: (1) the capital outlay on providing air fields and other ground facilities for the Air Forces; (2) India's share of the capital cost of industrial expansion measures; (3) Capital outlay on air fields etc., provided under the Reciprocal Aid arrangements for the U.S.A. forces in India; (4) cost of reconstructing new capital ships for the Royal Indian Navy; and (5) the defence share of the capital outlay on the scheme for the extension of telegraph and telephone communications in India".

This is an innovation in policy as well as in outlay. For according to the system of accounting hitherto followed for the defence expenditure in India, no distinction between capital and revenue charges was insisted upon. To call these items capital costs can be justified only on the ground that they involve very high sums, which, it may be hoped, will not be repeated year after year. But, if, by capital outlay is meant the creation of assets which may yield a return, it is open to question if that would in fact be so.

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So far as the land forces are concerned it has been agreed that:—†

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

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

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

The Settlement was concluded at a time when no major expansions in the land, sea and air forces of India or in our Supply activities were in sight. Almost immediately afterwards, however, the first large measure of expansion of the land forces was embarked on. It began as a measure to raise forces for the defence of India, but shortly afterwards His Majesty's Government began

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

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

The major expansion of the Air Forces in India has raised a financial problem of considerable magnitude. This expansion, like that of the land forces, is a joint war measure, since, although the role of the Air Forces while located in India is to defend India, some of them might, and almost certainly will, be allotted other roles when the removal of the immediate threat to India's security permits of their release. The problem was to arrive at an equitable and simple method, acceptable to

to ask India to supply troops for overseas service in the Middle and Far East. This India agreed to do provided the strategic situation in India permitted, and it therefore came about that, from time to time, while the expansion was in process, troops originally raised for purposes of India's defence were released for service overseas and had to be replaced in India. These changes in the roles of new units and formations led to constant changes in the allocation of the relevant expenditure, and it soon became obvious that all expansions in the land forces in India must be considered as one joint war measure; and that the cost thereof should be divided." (cp. para 18, Budget Speech, 1943).

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both Governments, of allocating the very heavy expenditure arising out of this joint measure. In the case of the air forces the bulk of the expansion must necessarily consist of Royal Air Force squadrons, specially brought into India for the purpose, and the British Government have incurred heavy expenditure on raising and training these squadrons. The aircraft and most of the other equipment of an air force have to be imported into India and are exceedingly costly. On the other hand, the expenditure incurred in India on the provision of ground facilities for these forces is also very large.

In this matter of an equitable allocation of the costs of expanding the Air Forces in India, no definite decision has yet been arrived at. It is accepted that India's liability shall be related only to the amount of the expenditure actually brought to account by India, namely, the capital outlay incurred in India on the provision of air fields and other ground and operational facilities, and the recurring costs of the squadrons and connected services while employed in India. The maximum requirements of India in terms of Land forces will probably be reached during the year 1943-44, and the estimates have been framed on this basis. In the case of the Air forces, a limitation of this nature is more difficult to formulate. Pending the determination of this issue, an arbitrary amount, equivalent to half of the total estimated capital and recurring costs in question, has been provisionally included in the revised and budget estimates, and the balance taken for the time being to a Suspense account.*

* This material has been taken, substantially without change, from the Budget Speech of February, 1943.

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The agreement is conspicuous by the absence of any provision on account of—

(a) the non-effective charges, i. e. pensions and other allowances for the very much larger forces now engaged by the Government of India. These charges are bound to grow. But they are to be settled after the War, and may prove a source of considerable complication. The Defence Estimates in the successive War Budgets have provisionally taken this item at Rs. 8.41 crores.

(b) Similarly, no arrangement is made for the disposal and accounting of the surplus war stores. This problem is also to be settled after the war. If we are to judge from the experience of the last war, the amount on this account may be very, very considerable. Its size will be all the greater in proportion as the cost of the present War is greater and in its duration longer, notwithstanding the introduction, in the meanwhile, of the Lease and Lend system.

(c) The arrangement, likewise, takes no account of any alterations in the pay and other emoluments of British troops coming to India; nor of the corresponding or consequential increases in the pay and allowances of forces actually on the Indian establishment.*

*cp. (Budget Speech of 27th February 1943).

"During the course of the past year it became necessary to review the adequacy of the pay of the Indian soldier. Although he is paid, clothed and housed at the expense of the State, and thereby largely protected from the effects of the rise in prices, he has to make an allotment from his pay for the support of his family who are not so protected. To afford him relief, an increase in the basic pay, proficiency pay and messing allowance of all

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The arrangement made is open to criticism from the Indian standpoint, mainly because it tends, in actual practice, to throw a disproportionately heavy burden upon India. And this quite apart from her ethical or legal liability to be at all involved in the War. It must be recognised, of course, that the entire war effort is in effect one for the whole British Empire, if not for the cause of the Allies, collectively. To distinguish innumerable common items of expenditure in accordance with benefit received by this unit or that becomes impossible, when more and more resources begin to be pooled, and outlay made as though from a common source. The arrangement may consequently have become as convenient as it was necessary. But that does not prevent its proving disproportionately burdensome to India, as seems to have been felt even by the present rulers of India. †

Indian other ranks and all non-combatants was sanctioned in October last, the details of which have recently been given to the House. It was felt however that in the present conditions it was less important to increase the amount of money at the soldier's immediate disposal than to improve his position at the time of demobilisation when his need would probably be the greatest. The deferred pay of all ranks was accordingly also increased, to be accumulated in the soldier's account but not to be payable until his demobilisation. The Government at the same time decided to set aside, annually, sums equivalent to this increase in deferred pay, the amounts being paid into a fund to be used for financing post-war schemes designed to promote the welfare of demobilised soldiers and followers" (cp. para 13, cp. cit.).

†After three years of its working, however, the Financial Settlement seems to have become not quite what the British Government desire. They naturally want more relief and assistance from India than even this arrangement provides.

"On behalf of His Majesty's Government it was pointed out that whilst, on the one hand, large quantities of the most expensive modern equipment were being sent to India for the defence of India without any charge by Britain, on the other hand,

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NATURE OF THE PROBLEM OF WAR FINANCE.

Let us now consider the nature of the problem of war financing in this country. The problem, it may be remarked at the outset, is not the same in this country as in other countries. Those of them, who have reached the peak of industrialisation, have only to reorient their productive organisation to meet the needs of war. At the end of the war their task would be one of restoration and rehabilitation to regain their pre-war position. They may also have some hopes of substantial benefit as the result of this war, assuming it will end in the victory of the allies, and from that to compensate themselves in a measure for the losses suffered in the war. India cannot expect to share in any substantial benefits, territorial gains, or economic advantages, that may result, notwithstanding the present professions to the contrary. Her gain, if at all, would be in the improved sense of security.

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

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which all peoples may be expected to share because of the fall of the aggressor. That will not butter our bread; but it may help to reduce the burdens of unproductive military expenditure, which now takes a fat slice of our national income.

As a consequence of the successful termination of the War on the side of the allies, India may also hope to achieve her national independence. Whether that would also mean in fact an emancipation from British Imperialist domination, and economic exploitation in consequence, remains to be seen. We have, however, been promised; and even if the promise is not officially endorsed by the other Allies, we hope the knowledge of our contribution, and an appreciation of the place India can play in the post-war world reconstruction, would make such of the allies as have nothing themselves to gain from the continued British domination of India, will use their influence upon the British to make them act upto their promise. The only alternative they must otherwise reckon with is anarchy for years in India.

the defence of India should be set against the cost of goods and services supplied by India for use in operations outside India.

On behalf of India it was pointed out that, owing to the developments in the situation since the entry of Japan into the war, the cost of the measures necessary for the defence of India, and for which India is liable under the existing Settlement, was so great as to impose a very heavy strain on India's limited financial resources. Whilst it was true that the existing Settlement had in the first two years of the war operated in such a way as to shelter India from the major financial consequences of war, that was no longer the case at the present time. It was therefore strenuously contended that the existing Financial Settlement should not be abandoned and that any outstanding questions should be adjusted with strict reference to the principles of that Settlement. . . . The Government of India have now been informed that His Majesty's Government do not intend to pursue

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For us the problem, therefore, is not merely mobilising the totality of our resources to win the war; and co-ordinating our entire effort with those of our allies or associates, on an equal footing. But while making this effort, we must always keep in view the task of post-war intensification of our interrupted industrialisation. The resources of India mobilised now for war-needs must be so applied as not to impede, but rather to accelerate, the pace of industrialisation in this country. The lack of full industrialisation in this country is, in fact, mainly responsible for her war effort being much below her real potential. Had the country's industrial potentialities been explored and developed to the utmost when the war broke out, and had her government possessed the entire confidence of the people, the size of the effort she could have put up would have deterred even the most desperate of the would-be enemy to hesitate before embarking on war against this country; and, if they did, to suffer a disillusionment which would have been a lesson not easily forgotten. The lesson of our possibilities must be fully learnt and turned to account. Besides restoring the pre-war norms, and making good the loss or damage occurring because of the War, we must so tune the forces of material progress we command as to add to and intensify our programme of industrial advance.

Another difference between other countries and this is our lack of full independence as a nation. India,

the proposal to modify the character of the present Financial Settlement. The Settlement therefore stands, and I have no doubt that the important decision will give as great satisfaction to the House as it has done to the Government of India." (cp. Paras 22-3 op. cit.).

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being politically dependent, is unable to shape her economic policy to fit and suit her own national interests, as understood by her own people. Our economic policy is determined, not to secure our own immediate interests and requirements; but rather so as to minister most effectively to the need, and conform to the outlook, of the foreign ruler of the land. Much is being now done, under the stress or pretext of the war, which may lay up a needless load of new problems in the post-war age. India must, therefore, take double care that her war effort, and the measures taken in response thereto, do not result in creating new obstacles, new vested interests, native or foreign, which might impede or defeat her post-war attempts at reconstruction and advancement.

✓ TRADITIONAL METHOD OF WAR FINANCING.

The methods of financing this frenzy of destruction should be such as to minimise the evils inseparable from the peculiar characteristics of this war, which impinges so much more heavily upon the machinery of production, indispensable for the task of rehabilitation. It is noteworthy that while no country can now be said to be wholly unaffected by this war, in almost every country,—including those in which the war is on their own soil,—the ordinary economic activity is not completely suspended. In fact, that activity is put into the top gear, with the accelerator applied incessantly. Every effort is being made to keep up simultaneous activity on both fronts. Because of this double, simultaneous activity, the problem of war financing becomes doubly complicated.

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In the countries affected directly, the war changes not merely the direction of the national effort, and varies the emphasis in every branch of it; it also recasts fundamentally the entire system, by its exigencies upon the national economy.

The immediate aim of war financing is to direct all available, or procurable, resources to providing a constant supply of goods and services, necessary for the successful conduct of hostilities. In peace times the economic machinery is kept up, in capitalistic countries, by an intelligent anticipation of demand, and the investment or enterprise in such direction as is likely to satisfy that demand consistent with adequate gain to the entrepreneur.

The incentive of this enterprise is, of course, the desire for personal profit. But in times of war this stimulus is lacking, or at least reduced. The heavy taxation, stepped up at each successive budget in a prolonged war, takes up for the common use an ever increasing slice of such profits. And if any remains still a surplus beyond the drastically curtailed needs of the private possessor of such surplus, public borrowing manages to take away as much of that remainder as may be by voluntary subscription to war-loans, etc.; and, when the voluntary principle fails to bring adequate yield, compulsion in a variety of forms is also not eschewed.

The methods of obtaining supplies, for the conduct of a war of these dimensions, may be summed up as follows:—

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(1) INTENSIVE USE OF EXISTING RESOURCES.

In every community there may be, at any given moment, some existing resources, which are not used to their full capacity; and consequently do not yield the volume of goods or services they may be capable of. Thus there may be land either unutilised altogether, though capable of cultivation; or used for purposes of social prestige or ornament, yielding no material return. The so-called culturable waste in India, which amounts to something like four-fifths of the land actually in cultivation, is an excellent instance of the first kind; while the game preserves and park land maintained by the British aristocracy may be cited as equally good example of the latter.

Again, productive resources unutilised to their maximum capacity because of uneconomic methods or inefficient machinery are to be found everywhere in almost every industry, service, or business. This may happen either because the tools and equipment are not working the whole time that they are capable of being worked; or because all of them are not being worked for one or another reason for some time continuously. Capital goods like factories or workshops, with all their equipment, may be working not all 24 hours every day, and seven days per week, year after year; but only for a fraction of a day, for a fraction of a week, in the year.

Labour, similarly, may not be putting forth the full exertion it may be capable of; or such capacity as it may have may not be utilised to the maximum for lack of proper social organisation, or adequate technical efficiency of the machinery with which it is working.

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All these resources will be intensively utilised to the utmost possible to meet the extra demand caused by the War; and so obtain from such surplus of current production, an ever increasing proportion of war requirements.

(2) CURTAILMENT OF CIVILIAN DEMAND BY RATIONING.

This method of financing part of the War costs, i.e., by utilising to the maximum possible the existing but insufficiently worked resources, and taking up the surplus thus created for common use by heavy and varied taxation, is possible in advanced countries, which have a reserve of unused resources. The diversion of existing resources at home, previously used to meet civilian needs, or for capital export abroad, to production for war by curtailing the amount available for civilian needs, and prohibiting capital export, is another method, concretised in an infinite medley of control and rationing regulations, priorities, and the like. This device is, also, practicable only in richer communities, like Britain or America. The margin or reserve of this kind varies according to the size of the income per head, and the volume of non-essential production in any community. The greater the income per head, and the larger the volume of non-essential production, the greater would be the chance of utilising this fact or for meeting war requirements.

(3) LIVING ON CAPITAL.

In the same category is what may be called living on one's capital. That is to say, capital resources accumulated and inherited from the past, and ready for consumption, may be used up in much greater intensity for

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purposes of war. The accumulated wealth of the community would be depleted to meet the destructive demands of the war. Accumulated stocks of food or raw materials used to be very common in the past, when well stored granaries and wells in forts were among the most salient provision for national defence. Using up such stocks, without replenishment, as in peace-time, to meet the war demands, may perhaps save that community some additional burden on its current resources, which would otherwise become inevitable. But, essentially, the method is uneconomic, and likely to bring more harm than good.

The same may also apply to the stocks of raw materials required for industrial purposes, i.e., those producing munitions and other such war material.

Less noticeable, but not less harmful, is the insidious device of neglecting to replace or repair lost or worn out parts of tools and machinery needed for production. Provision for depreciation of plant, equipment, and machinery is a vital necessity of modern industrial production. To refrain from making adequate provision for it may be excused by the still greater urgency of the war needs. But it will have its toll in needlessly diminishing returns from that community's industry. Taxation or borrowing, therefore, which prevents such provision being made, though paid by the actual generation, will be an unjustifiable burden falling upon the succeeding generation.

(4) UTILISATION OF EXISTING LIQUID WEALTH

A less objectionable, but not equally accessible,

***GOLD RESERVES OF CENTRAL BANKS AND GOVERNMENTS IN \$ MILLION @ \$35 PER OZ.**

The figures are latest available in each case.

Dec.	U. S.	Unit. King.	Fr. France.	Germ.	Holland.	Switz.	Italian.	Belg.	Japan.	India.	World.
1920.	2,451	754	685	260	256	105	204	51	556	116	7,239
1925.	3,985	695	711	288	178	90	219	53	576	109	8,974
1930.	4,225	718	2100	528	171	138	279	191	412	128	10,917
1935.	10,125	1648	4394	33	438	454	270	611	425	275	21,604
1936.	11,258	2584	2995	27	491	657	208	632	463	275	22,630
1937.	12,760	2689	2564	28	933	650	210	597	261	274	23,964
1938.	14,512	2690	2430	29	998	701	193	581	164	274	25,468
1939.	17,644	1	2709	29	692	549	144	609	164	274	25,702
1940.	21,995	1	2000	...	617	502	...	734	164	274	...

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These figures are taken from the World Almanack, and checked by the figures given in the 'World Economic Survey', 1939-41, issued by the League of Nations. According to the latter authority, the U.S.A. was adding to her monetary gold stock more than three times the new gold production in the world, by 1940. "The world output of gold in 1940 has been estimated at 40.5 million oz. or, at \$35 per ounce, \$1,417 million." But the U.S.A. addition to the monetary gold stocks, in 1940, was \$4,351 million. (cp. Op. Cit. p. 142). According to the same authority (p. 144) the U. K. official gold reserve in December 1940 was \$292 million, while the corresponding U. S. figure in April 1941 was \$22,506 million. More than 85% of the world's monetary gold is centralised in America, where it is buried in cellars under the Atlantic. Figures from Russia, even when available, are open to question as to their reliability.

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expedient to meet war demands is the export of precious metals like gold and silver, or sale of foreign securities. Not every country is able to command such liquid resources crystallised in precious metals to any sizeable extent. Much less is it possible for most countries to indent upon their accumulated stocks of foreign securities, or wealth invested abroad. Those who command such resources can, in such an emergency, realise them for meeting the immediate war needs. Before the last war, only England, and to a smaller extent, France, Germany, or Holland, could command such foreign investments. Most of the latter may now be deemed out of the field; and their place is taken by the United States. But even America might not, without reciprocal aid, be able to meet all war demands from her own resources.*

On the eve of the present war, Britain held, and had used up by the 31st of December, 1940, this form of wealth as shown below:—†

Figures in million \$			Amount held on 31-12-40		
Gold and Silver Resources.	Amount held on 31-8-39.	Expended between 1-8-39 to 31-12-40.	Total.	Unavailable.	Net Available.
Gold	2038	1746	292	51	241
Dollar Balances	595	236	359	305	54
Market Securities	950	334	616	...	616
Direct & Misc. Investments.	900	...	900	...	900
Total	4483	2316	2167	356	1811

The United States may also now be said to command accumulated stocks of gold and silver almost to a superfluous extent. The experience of England has shown

† cp. Lease and Lend by T. E. Gregory and M. W. M. Yeatts, p. 2.

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that too much reliance should not be placed upon this method of financing the war.

(5) MORTGAGING THE FUTURE.

The last method is to anticipate the future, borrow on the national credit at home or abroad. Domestic borrowing is preferable for a number of reasons. Foreign borrowing should be avoided to the utmost of one's ability, lest even one's national independence and integrity might be jeopardised. The limits to which national credit can be utilised by any country depends on the strength of its own internal organisation, its sense of social security, which induce outside communities to lend in the belief that, after the war, the intrinsic strength of the community concerned would make up the temporary deficit caused by the war, i.e., that the borrowed amount will be duly returned, capital and interest. But if that strength and security are lacking, the community must face the fate of China or Egypt, or even Austria before her Nazi annexation. And this apart from the ethical aspect of borrowing abroad, which creates a mortgage on succeeding generations in favour of the foreigner. Each generation must bear as much as possible of the burdens it has to face. If that be not possible, it is better to transfer a part of the burden to its successors at home who may treat it as part of the inheritance received from its fore-runners. And the present as well as the succeeding generations can deal with such burdens by conversion at lower rates, or by capital levy, or even by inconvertible currency or deliberate inflation like that of Germany between 1922-4.

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ACTUAL PROBLEMS IN INDIA.

As already remarked, the problem of War Finance in India is, to a considerable extent, different from that in other countries. The War has come as a great, unexpected, almost uncontrolled, stimulus to industry in India. Outside supplies — imports — have been all cut off, as much because of the diversion of industry in those countries from which we used previously, and principally, to import, as also because of the shortage of shipping and the risks of sea-transportation.* The demand of the War is, on the other hand, of an extent, urgency, and intensity, which cannot wait for any consideration of prices. An effective, though uncertain and adventitious, protection helps old as well as new industries in India.

In trying to get out of this expanded industry all that the war demands, by way of taxation, control, regulation, and rationing, we must remember that the present is not a normal growth of industry. We have to take care not only that industries established under the impetus of the war continue after the war is over; but also to see that, in this process, no new interests are created, which may in any way be opposed to the all-round industrial development and economic advancement of the country after the War. Financing methods and devices, normally as well as in war-time, have considerable reaction upon such matters; and so the caveat is by no means uncalled for.

* See Table on the Trade of India, *infra* p. 93.

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(a) THE SIZE OF INDIA'S WAR BURDEN.

Apart from this generic difference, the problem, as it faces India, is different from its aspect in other countries, in some material respects. We have, as other countries, to find additional funds to pay for the share of the war costs charged to our account. As stated already, that share bears no equitable relation to India's own defence, her concern, or interest in this struggle of rival European imperialisms. It is determined by the exigencies of British Imperial finance. For years before the War came to India's own threshold, there had been very substantial increases in her defence budget, as shown by the table below.* Almost the whole of this increase was due to troops and materials being raised for despatch to the African and European theatres of War.

This amount is in addition to the amount of recoverable expenditure met, in the first place, by the Government of India, but expected to be refunded by the British Government, if and when it is able to do so, on whose account it has been defrayed. The aggre-

*The Defence Expenditure of India (in Crores Rupees)

1938-39	..	46.18
1939-40	..	49.54
1940-41	..	73.61
1941-42	..	103.93
1942-43	..	238.89 (Revised Estimates)
1943-44	..	199.16 (Budget Estimates)

This makes a total of Rs. 665.13 for the War years only. Counting the normal defence budget at Rs. 46.18, the pre-war figure, this gives an excess, due entirely to the War, of Rs. 434.23 crores, if the war is over by March 1944.

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gate of both these has to be obtained by deduction from the current wealth of the people, whether by taxation or borrowing.

The funds thus obtained are used to find, train, move and maintain large numbers of armed forces of all kinds, together with their auxiliary services and necessary supplies. The exact figures of the forces thus raised are not published, for obvious reasons. But one may easily surmise from what has been stated in the budget speeches, or other official statements from time to time, that the land forces alone, of all sizes, must be aggregating by now nearly 2 million men. It has been stated in the 1943-44 budget speech: "The land forces in India in the year 1943-44 will have reached a stage at which they can be regarded as reasonably adequate to meet all the demands likely to be made upon them for the defence of India".* And to these the Navy and Air Force, and the services necessary for maintaining such forces in fighting trim; and the figure grows still more.

These are all recruited by voluntary enlistment; that is to say, they are paid competitive wages, if not much higher. This was inevitable, not only because the British method in their own military organisation has favoured voluntary enlistment; but also because the

* Cp. Para 12 of the speech. The same authority added that considerable expansion had taken place in the Royal Indian Navy, by substantial addition to the number of war vessels; 50% increase in the strength of the personnel; improvement in port defences and in the facilities for naval bases as well as training establishments (cp. para 13). Almost the entire cost of all these is regarded as "purely Indian War Measures, relating wholly to India's local naval defence" (cp. para 19), and therefore chargeable exclusively to India. See 'ante' p. 21.

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British example, which must be copied, provides a number of charges in addition to the actual pay and maintenance of the fighting unit, allowances for their families, their transport equipment, etc, which swell the cost to unbearable proportions.*

A foreign Government, such as the British in India, cannot experiment with conscription, as the national governments have done in other European countries. Military conscription, if applied to the people of India, may not only result in disproportionately large numbers, creating new problems of adequately equipping them for modern warfare, which the utmost expansion in armament industries may not suffice to meet. It may, at the same time, create a political threat to the continued foreign domination, which, naturally, the British power in India cannot encourage. At bottom it is the same apprehension of a menace to their continued economic domination, or exploitation, of India, which has prevented them from developing to their utmost capacity and mobilising to their fullest the economic resources of India. India developed, India industrialised, India trained and armed and equipped up-to-date, might not only not tolerate for a long time the political domination of a foreign race, refusing to be acclimatised and assimilated in the country; but might also undo the

* The additional burden to these causes is not easy to estimate. In his last Budget Speech, the Finance Member observed:—"The increase of Rs. 54.66 crores in (3) (i.e., the cost of India's own war measures) is due mainly to the increase in the strength of forces in India, increase in pay and allowances of defence personnel, the grant of field service concessions to troops in India, and the provision of additional port and coast defence measures". cp. Para 29. See also 'ante' p. 24.

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economic exploitation of her potentialities for the benefit of an alien.

India being backward in the industries needed for war, notwithstanding the intensive impetus given by the present emergency, becomes Britain's nemesis in this hour of her need. For India just cannot contribute all that she might have. A Government like the one now in charge cannot afford to take such a radical step, like conscription — military as well as industrial — that a National Government, commanding the full confidence of the people, would easily have done.

(b) FINANCING BRITISH WAR PURCHASES.

The exact cost of the forces thus raised is stated elsewhere. It is stupendous; but it is not all. The problem of war finance for India is not solved merely by raising, training and equipping these forces; and providing for their pay, transport, and maintenance. In addition to these, the Government of India must also provide the means to pay for the ever growing bill on account of the purchase of stores and materials bought in India on behalf of the British Government ever since the war started. Since 1942, the same factor operates also for the American Government, which has been sending an ever increasing number of troops and armaments to this country. The latter is also sending a goodly amount of war-material, which makes a very effective set-off, that is utterly lacking in the case of Britain.*

* India is now made a base of operations for American forces in their fight against Japan. Australia does, no doubt, provide another convenient base; but for helping China, and taking the

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The volume of these purchases on behalf of the British and American Governments is difficult to state precisely. By the end of 1942-43, figures mentioned officially from time to time had totalled somewhere near 700 crores of rupees. It is likely that in the current year the amount will be very much larger. Relief might to some extent be obtained on this account by the operation of the Lease-Lend system. I shall say a few words on this device later. It must be remembered, however, that Lease and Lend does not cover all the requirements of war-time. Nor is it entirely free and without charge. Cash or substantial payment is necessary for quite a fair proportion of our war needs still obtained from America. And the volume as well as the value of the Reciprocal Aid is growing so fast one wonders if the shrewd Yankee has not had after all the best of the bargain, in every way. The reaction of all such payments on the currency system of India is cumulative as it is inevitable.

No provision has been made on this account by the British Government in favour of India, similar to that they had made on account of their war purchases in the United States, until the Lease and Lend system came into effect, on March 11, 1941. They just issue I.O.U's to the Government of India, — which become the so-called Sterling Securities in the Currency Reserve. The Government of India make payments practically by asking the

war, as it were, into the enemy's own country, India is a much more important base. For while Australia is separated from the main land of Japan by hundreds of miles of sea intervening, India through China is in contact with the enemy on land, where alone final victory can be obtained. Hence the importance of this branch of war-financing.

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Reserve Bank of India to issue currency notes against the sterling securities they obtain from the British Government. And as these do not represent any real value, the notes thus emitted amount, in effect, only to so much additional purchasing power, that cannot but react on the general price level.*

* cp. Para 54.

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

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

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The purchases on British account have, moreover, their own reaction upon the industrial position of the country. Several industries, in fact, have been established anew, and existing ones expanded and reconditioned, to meet these demands. But the industries, thus set up under the impetus of the war, must face a different prospect when once the war comes to an end; and the surplus stores and materials left over after the war are dumped upon the market. Demand would then be reoriented into the normal peace-time channels; and will not provide the present inflated prices which keep these industries flourishing to-day. It is doubtful if those who now own and manage these industries make adequate provision, from their present huge profits, to safeguard and maintain their position when the warborn flush is finished. It is possible, also, that they may take much longer in this country to readjust themselves to peace-time requirements than in other countries. In the meanwhile, there may supervene a depression of much greater severity and duration than is commonly realised. The protection or safeguard of this hectic war-time

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

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growth is given no thought to while this spurious prosperity (sic) lasts. After the war is over, and her present acute need ended, it may not even suit Britain's book to encourage the very idea of such safeguarding, as it would mean so much impediment to her own process of demobilisation and rehabilitation.

It may be mentioned, in passing, amongst the industries thus reported to have been established anew or expanded, to meet the war demand, and because of the stoppage of foreign imports due to lack of transport facilities, no place seems to have yet been assigned to building up any of the key industries we need so badly in this country. The automobile, the aeroplane, the Chemicals or Locomotive industries are still conspicuous by their absence. Notwithstanding the declaration of the Government of India in 1940* for establishing a Government Workshop for Locomotive building, estimated to cost about Rs. 50 lakhs, that industry still remains a lacuna. A definite scheme for an automobile industry, worked out before the war almost to the stage of commencement, was strangled almost at birth by all sorts of objections or pretences, that never came within a mile of the real reason for such destruction — the fear of British competitors to lose a fairly profitable market for their own products.

Meanwhile, American ventures in the same field have taken root on this soil. And though there have been official assurances to the effect that the moment the war is over, these enterprises will be withdrawn from India, and the field left free to Indian enterprise to deve-

* cp. The Speech of the Railway Member, para 13, for 1940-41.

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lop all local resources and meet all local demand, it remains yet to be seen how far, when peace returns, Indian industry of this kind will have a reasonable scope to establish itself.*

The successive investigations, also, made in the recent years in this regard by the Roger Mission, the Eastern Group Conference, or even the Grady Mission, seem to have all concentrated upon developing in India only such of her productive resources as have already been in use, and not launching out in new directions of industrial expansion. If this policy is followed to its logical conclusion, India must be condemned for ever to remain predominantly a producer of raw materials and foodstuffs, for which her capacity is known and admitted. But if her raw materials are thus to be drained away to be worked up into finished products by more advanced industrialised countries, India must be for ever undeveloped herself, a mere hewer of wood and drawer of water for the more fortunate European or American industrialist.

War-time difficulties to transporting machinery, importing technicians, or financing such enterprise, have been mentioned as explanation of the relative neglect of India's industrial possibilities. But such obstacles also operate elsewhere; and yet they have not been suffered to stand in the way of Australia developing her automo-

* It must be admitted, in fairness to America, that the U.S.A. do not depend for their prosperity on foreign trade, as Britain does. Their own domestic market, and their own local resources are much too vast to necessitate their searching for such sheltered markets as Britain finds in her colonies and dependencies.

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bile industry. It is a war baby, pure and simple. An expert committee had pronounced against such enterprise being started in that country. And yet its government, national in composition as well as sympathies, disregarded such experts, and went ahead with the plans to build up this industry, no matter at what immediate cost to the community. Cost is no consideration when a war is on. Similar instances can be found in other fields from other countries as well. Even granting, therefore, that a certain degree of industrial development has taken place in this country, it is still open to question whether this war-time spurt would suffice to keep up the development when the present feverish demand is over, and the field is left free to foreign competition from much better equipped sources. A solid foundation for all-round industrial development could have been well and truly laid, had the impetus been not deflected or neutralised by the characteristically British policy.

It is interesting to note in passing that, in the Lease and Lend system as hitherto operated, or the reciprocal aid thereunder, the facilities provided for India for her industrial expansion at the present time still leave her lacking in regard to machinery and machine tools, to the full extent needed intensively and rapidly to develop her vast resources.*

Because India has been kept thus industrially backward, naturally the cost in terms of time and energy wasted, notwithstanding the war, is much greater to her than is commonly perceived. The amount of contribution, also, which she has been able to make towards the

* See page 150 *et seq.*

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common war effort, is proportionately smaller than her material resources and her man-power would have warranted. The absence of a National Government, commanding the confidence of the country, is responsible for the failure to mobilise completely the resources of the country, and utilising them to make the utmost possible contribution to the allied cause.

This aspect of the situation was most painfully brought out in 1942 March-April, when there was imminent risk of a Japanese invasion. The necessity of what was known as the "Scorched Earth Policy", adopted by Russia in a similar emergency even in regard to her most valued industrial achievements, was looming on the Indian horizon larger and larger every day. Rather than allow them to fall into the hands of the advancing enemy, the Russian Government had decreed, and the Russian Armies had carried out, the systematic destruction of all industrial establishments and power plants within the invasion zone. And the same was likely to be needed in this country, if Japan had invaded and advanced irresistibly, as had happened in Burma and Malaya.

The moment, however, the possibility was even hinted at, interested parties were up in arms, and the country's (sic) opinion mobilised vehemently to oppose such a policy. It secured the support of the most outstanding national leader, and forced the foreign Government of India to offer assurances, the mere demand for which would, under a national government fighting for the very existence of the country, have been treated as rank treason. I believe, however, that such opposition

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would not even have been voiced, had a national government been in charge of the nation's destinies. The arguments urged by the spokesmen of "No Scorched Earth Policy for India" openly took their stand on the non-Indian character of the existing Government, which did not own the plant and establishments that might have come first under the policy of deliberate destruction ordered as a part of the national defence. The Government was in consequence obliged to adopt a wholesale system of War Risks Insurance, to indemnify or compensate those who might lose their goods, property, factories, or workshops as the result of enemy action, or even in consequence of defence measures to guard against the country's munitions or power plants falling into enemy hands. The Insurance scheme has, luckily, not resulted in anything but handsome contributions to the Fund, from the premia compulsorily exacted. But its liability to serious inroads, had the risk then contemplated materialised, cannot even now be ruled out.

Because of the immense sums involved in financing the British purchases in India and other recoverable war expenditure on British account, which the British Government was unable to pay for in any substantial value, resort has to be had to excessive inflation of the paper currency. This reacts upon the price level inflating it out of all proportion. I shall have to deal with this problem of Inflation at greater length hereafter, but let me give here the actual volume of expansion that has already taken place in the note issue and the price level.*

This heavy increase in the note issue is backed largely by sterling securities. It is open to question if these

* THE FOLLOWING TABLE GIVES ALL NECESSARY FIGURES.

Period Average of Friday Figures	Notes In Bank Dept.	Issued In Circu- lation	(A) Total (A)	In India	Out- side India	Sterling Securi- ties,	Total (a)	Rupee Coin.	Govt. Rupee Secs.	Internal B-Ex. & other Comm. Paper.	Total assets.	Ratio of (a) to Liabili- ties (A)
1939-40	18,89	208,86	227,75	14,42	Nil	78,32	122,74	67,59	37,42	Nil		53,89
1940-41	17,15	241,62	258,77	" "	"	129,97	174,39	35,81	48,57	"		67,39
1941-42	12,17	308,46	320,63	" "	"	165,44	209,86	35,21	75,56	"		65,45
1942-43												63,24
April	11,14	430,14	441,98	" "	"	235,10		29,47	132,99	"		
	(3)	(28,54)	(28,57)	" "	"					"		63,20
May	12,11	455,09	467,20	" "	"	250,85		28,14	143,79	"		
	(2)	(30,24)	(30,26)	" "	"					"		67,07
June	11,90	439,17	451,07	" "	"	258,10		26,27	122,28	"		68,19
July	12,81	449,53	462,34	" "	"	270,84		28,77	118,31	"		72,62
Aug.	12,25	467,91	480,16	" "	"	304,29		29,07	102,38	"		74,03
Sep.	11,30	488,06	499,43	" "	"	325,29		27,29	102,43	"		69,94
Oct.	10,58	508,77	519,35	" "	"	318,83		23,71	132,39	"		72,57
Nov.	10,73	535,26	545,99	" "	"	351,83		17,35	132,39	"		75,52
Dec.	12,47	560,57	573,04	" "	"	388,33		14,16	126,13	"		68,07
Jan.	12,73	587,70	660,33	" "	"	364,23		13,72	177,96	"		68,02
Feb.	11,56	609,50	621,06	" "	"	378,03		13,94	184,67	"		

Week Ending 1943													
Jan.	1	13,52	578.25	591,77	44,41	"	412,83	497,25	12,17	122,36	"	591,77	77,267
	8	12,52	586,35	598,87	44,41	"	345,83	390,25	14,26	194,36	"	598,87	65,164
	15	12,22	589,44	601,66	...	"	350,83	395,24	12,06	194,35	"	601,66	65,693
	22	14,44	590,73	605,17	...	"	355,83	400,25	15,56	189,37	"	605,17	66,138
Feb.	5	11,93	602,19	614,12	...	"	367,83	412,25	12,52	189,35	"	614,12	67,128
"	12	10,21	609,72	619,93	...	"	375,83	420,25	15,31	284,37	"	619,93	67,790
	19	12,24	611,72	623,96	...	"	382,73	427,15	14,35	182,47	"	623,96	68,457
	26	11,87	614,36	626,23	"	"	385,73	430,14	13,62	182,47	"	626,23	68,68
Mar.	5	9,42	625,38	634,80	"	"	395,73	440,15	12,20	182,46	"	634,80	68,33
	12	11,70	634,49	646,19	"	"	391,77	436,18	15,58	193,43	"	646,19	67,50
	26	11,53	643,58	655,29	"	"	421,71	466,13	14,51	174,47	"	655, "	71,15
April	2	9,32	651,38	660,70	"	"	447,66	497,07	14,09	154,53	"	660,70	74,48
"	9	11,53	643,58	655, "	"	"	421,71	466,13	14,51	174,48	"	655,11	71,15
"	16	11,78	669,37	681,16	"	"	493,59	538,08	13,56	129,59	"	681,16	78,98
"	23	10,46	673,63	683,88	"	"	493,59	538,08	16,29	129,59	"	683,88	78,67
"	30	12,18	677,61	689,79	"	"	501,49	545,90	16,20	127,69	"	689,79	79,1

In the first week of May, 1943, the total circulation passed the 700 crore-mark.

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would be realisable in full after the war. But, quite apart from this aspect, we must consider the reaction upon this country's economic system as a whole, because of these purchases. A National Government, even while making such purchases, would see to it that they were provided or procured in this country, without undue injury to the industrial position of the country and its future. At the same time it will have due regard to the claims of the consumers. By every practicable device, the price level would have been kept under effective control.

The financing, moreover, of these purchases etc., would have been so organised as not to demoralise the industrial entrepreneur by permitting him almost unlimited profits, nor handicap the consumer with inelastic income by all but uncontrolled prices. The profits from war industries to-day are, in many cases, said to be such as to pay for the entire capital equipment in a year or two, notwithstanding the Income and Supertaxes, and the Excess Profits Duty. This is unhealthy stimulus, which cannot be maintained after the War. And the industry built upon such stimulus can have no great hope of survival in normal times. As for the price-level the table annexed tells its own tale.*

The method adopted for financing British purchases in India contrasts significantly with that adopted, both in

* These two tables are interesting illustration of this phenomenon. On the outbreak of the War, Sept. 1939, the total note circulation was 179 crores, and the total sterling securities was 59 crores. By the end of April, 1943, the total note circulation was nearly 700 crores, while the total of sterling securities was over 500 crores. Since then the process is by no means arrested.

Currency Circulation and Wholesale Prices. (In Lakhs of rupees)

Statistical Summary, Reserve Bank of India, March, 1943.

Month.	Increase or decrease in Note Circulation as on last Friday of the month.		Increase or decrease of Rupee Coin* in circulation as on last Friday of the month.		Combined progressive increase or decrease of Notes and Coin in Circulation.	Calcutta Index No. of wholesale prices (July 1914 = 100)
	During month	Progressive	During month	Progressive		
1939-40 ...	...	+ 49,45	...	+ 10,08	+ 59,53	115
1940-41 ...	...	+ 19,11	...	+ 33,23	+ 52,34	119
1941-42 ...	...	+ 152,49	...	+ 7,18	+ 159,58	144
1941-42						
April ...	+ 9,46	+ 9,46	- 1,35	- 1,35	+ 8,11	127
May ...	+ 5,85	+ 15,31	- 17	- 1,52	+ 13,79	130
June ...	+ 3,96	+ 19,27	- 34	- 1,86	+ 17,41	137
July ...	- 3,92	+ 15,35	- 1,08	- 2,94	+ 12,41	150
Aug. ...	+ 3,58	+ 18,93	- 84	- 3,78	+ 15,15	151
Sep. ...	+ 9,53	28,46	72	4,50	23,96	149
Oct. ...	7,33	35,79	37	4,13	31,66	151
Nov. ...	13,97	49,76	1,24	2,89	46,87	157
Dec. ...	28,18	77,94	3,42	53	78,47	154
Jan. ...	20,81	98,75	2,54	3,07	101,82	155
Feb. ...	23,27	122,02	2,16	5,23	127,25	153
Mar. ...	30,33	152,40	1,95	7,18	159,58	153
1942-43						
April ...	32,55	32,55	3,05	3,05	35,60	157
May ...	18,04	50,59	1,69	4,74	55,33	169
June ...	11,35	61,94	1,61	3,13	65,07	182
July ...	7,81	69,75	2,16	97	70,72	182
Aug. ...	23,26	93,01	98	-1,95	94,96	192
Sep. ...	18,33	111,34	2,03	3,98	115,32	198
Oct. ...	22,11	133,45	4,87	8,85	142,30	209
Nov. ...	25,66	159,11	6,53	15,38	174,49	227
Dec. ...	30,06	189,11	11,12	26,50	215,61	238
Jan. ...	22,89	212,00	9,57	36,07	248,07	250
Feb. ...	21,11	233,11	5,95	42,02	275,13	253
Mar. ...	29,22	262,33	4,11	46,13	308,46	272

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* cp. Table p. 34. Explanatory Memorandum, Part II, Statement I.

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this and the last war, for purchases in America. Until the advent of the Lease and Lend system, Britain had to provide substantial values for obtaining her war supplies from the United States, notwithstanding the well-known sympathies of that country for the cause of Britain. In the last war, too, Britain had to offer gold as well as Dollar securities to America until the latter joined the war, and provided the munitions etc., as in a common pool. In this war, moreover, Britain had to deal with a certain prejudice in the average American mind against her, because of her refusal to pay her war debt to America, notwithstanding a solemn funding agreement of 1922.

The sympathy for the democratic cause in the United States in the present war was, however, too strong to offer any obstacles to British purchases in America, especially if they offered cash, or real value in exchange. But even so, in the first two years of the war, Britain had to provide, under the so-called "Cash-and-Carry" system, not only actual value in the shape of gold or dollar securities, but also her own means of transport. The table given earlier* of the amounts thus spent by England before the advent of the Lease and Lend system would suffice to show how far the shrewd Yankee made a good business out of Britain's hour of need. And even after the advent of the Lease-Lend system, cash payments are not altogether dispensed with. For Lease-Lend applies only to those commodities or services which the American authorities are satisfied cannot be

* Foot note see 'ante' p. 35.

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procured in the ordinary market. And, besides, Lease-Lend is not a one-way traffic. Reciprocal aid must be provided in kind on as high a scale as Britain can possibly afford, without reckoning the contribution already made by her in keeping up the fight against the aggressor for two years almost single-handed; and without also counting those articles which are not lost, consumed, or destroyed in the War, and which, in the opinion of the American authorities, may yet prove of use. These, even if lent in war-time, must be returned. The value of aid received by Britain under this system upto March 11, 1943, was stated by the Lease-Lend administrator, Stettinius, to amount to £1107 million. What America got in return is not stated in the same terms; but we may be sure the Yankee has not proved himself to be less shrewd a bargainer than John Bull.

In marked contrast with this is the case of India. British purchases have from the start been financed mainly by Sterling securities, issued as principal part of the cover against additional and ever increasing note issue. The table given already of the growth in note circulation and its sterling reserves is eloquent of this matter. Anglo-Indian statesmen profess to see no difference between sterling and gold, between these securities issued in payment of the materials and services purchased by Britain in India, based upon the general credit of England, and the substantial values transferred to the United States on similar account even in this war. But to those who recollect the vicissitudes of the British currency and credit system in the last 25 years, and also remember the British repudiation of their last war debt

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to America; and at the same time consider the burden of new debt added by the present war,* in relation to the general taxable capacity of the British people, cannot but question if full payment of these securities would be made in some substantial form. For the debt burden on England already exceeds £13,000 million. Even at 4% — allowing for principal and interest charges — it must absorb over £500 million per annum. The burden of Britain's civil services and war pensions must be greater — much greater — after this war than ever before. And even if, as a result of this War, the burden of armaments is progressively reduced, Britain's national Budget after the War will account for £1200 to £1500 million, or between 25% — 33% of the total annual national prewar income.

This income, besides, must undergo material diminution as the result of the War. The loss of a major portion of her overseas investments; the destruction of her mercantile marine, the decline of her banking position, not to mention the enormous damage to her productive equipment, must reduce her aggregate income to a very large extent. With her national wealth thus reduced, and with other countries even more intent upon their local rehabilitation after the War, and so preventing any capture of their local markets by British produce, Britain's post-war taxable capacity must be very materially diminished. The chances, therefore, of the sterling debt being repaid in full, real value are very small.

* The latest British Budget (cp. The Times of India, April 13, 1943) gives this debt to be over £8,677 million; and the total national debt over £13,000 million.

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True, in this War, there has not been much international borrowing — at least not as between Britain and the United States, two of the strongest economic communities in the world. The problem of transferring values is thus very much more limited. The temptation to tamper with the national currency, or raise inordinate tariff walls to secure a favourable balance of trade, would be ever so much less. The bulk of the British debt incurred during this War is owed to her own nationals. The problem of servicing it is thus a question of transferring some wealth from one set of local pockets to another, by means of taxation, and the like. In fact this is the characteristic of a good deal of the entire war expenditure of Britain. Except for that portion of material wealth and human life actually consumed or destroyed in fighting, the bulk of the War outlay is taking from the community to pay the same body. India's problem of war financing is radically different in this respect, since a considerable proportion of its expenditure on this account goes into foreign pockets.

Even if the British debt is not nominally repudiated, it is, however, open to substantial reduction by devices like a capital levy. They seem inevitable, if the orthodox way of accounting and financing continues after the war, and the national credit of Britain is maintained. To the extent that we are holders of a part of Britain's war debt, in the shape of these sterling securities, we shall be treated as any private holder of this debt. And if a capital levy is imposed, we stand to lose almost the whole of this amount in a short while.

To this extent, therefore, and in this manner, the

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methods of war financing adopted by the present government of India have exposed the financial and economic system to risks that a National Indian Government would never have done. The latter would, even if forced into such expedients, have at least adopted adequate precautions and safeguards against the possible consequences outlined above.

EXPERIENCE OF THE LAST WAR.

The successive budget speeches of the Indian Finance Minister are silent as to the "modus operandi" for recovering the amounts thus invested in sterling securities, or described as expenditure recoverable from Britain. In the last war, too, India had defrayed very large expenses on British Government account—nearly Rs. 300 crores. This time the corresponding figure promises to be three times that amount before the war is over, besides taking a very fat load on India's own account.*

On the last occasion, (1914-18) there were many items of such expenditure, as to the just chargeability of

* It may interest readers to know that the aggregate of outlay on war, or contribution, made by India will be over Rs. 1,130 crores assuming the War will be over by 31st March, 1944. This includes 430 crores of excess defence charges taken upon the Indian exchequer; and 700 crores of the so-called recoverable expenditure from the British Government. This exceeds $\frac{3}{4}$ of the Lease-Lend aid received by England upto March 1, 1943, which was stated by the American Lease-Lend administrator to be £1,107 million = Rs. 1,456 crores. While America has got, and will get, substantial value in return, what has India got to show on the other side? There is, of course, nothing to set off against the Rs. 430 odd crores of excess defence expenditure India has incurred between 1939-44 as a result of being involved in this war — except throaty praises in Parliament or the Press. And as for the Rs. 700-

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which to India there were serious difference between the Anglo-Indian and the British authorities. In the final settlement of several of these India has grounds to believe she was forced to make substantial sacrifices. There is, we are told, not much scope for similar disputes on this occasion, because of the agreement for sharing costs already outlined. But even assuming there will be no serious disputes, the last experience is still worth recalling, if only to sound a note of timely warning against the measures then adopted to solve this problem. On the last occasion, unable to make payments for the British purchases in rupees, the Government of India gradually raised the rupee-sterling ratio, which seriously injured the post-war export trade of India, and incidentally caused loss of 40 crores in Reverse Councils. On this occasion, too, that expedient is not absolutely out of the question. They trust nowadays more to paying in sterling securities, — which is not the less likely to cause serious loss to India.

The use of part of the sterling balances for the repatriation of the Indian sterling debt, effected in the last three or four years, is, no doubt, a commendable utilisation of the sterling balances accumulating to the credit of India on account of such purchases. But even

crores of recoverable expenditure met on account of Britain, we have repatriated 300 crores worth of the sterling debt of India, and the balance in the shape of the sterling securities and the sterling balances! How far the repatriation of the debt been a real benefit to India will be discussed in another place. How far the sterling balances and securities represent real value, it is for the future to say. But though India has contributed over $\frac{3}{4}$ of what the U.S.A. have given as Lease-Lend aid to Britain, she does not get even a vulgar fraction of the credit heaped upon America!

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after the whole of the sterling debt has been repatriated, and other similar obligations of the Government of India, in respect of family pensions, annuities, etc., have been compounded and liquidated,* there will still remain large sums invested in sterling securities, that would present after the war a formidable problem in realisation. The Finance Minister tells us:—

“There would, however, still remain, as far as can be judged from the rate at which sterling is accruing, a substantial surplus above the amount which is likely to be required as a reserve against our currency note circulation. The Government of India are, therefore, at the same time considering the proposal, which has been made from several quarters, that something in the nature of a Reconstruction Fund should be constituted to provide for the financing of a programme of post-war reconstruction, including the rehabilitation and re-equipment of industry. It is clear that in the postwar period India will have heavy demands for imported machinery and plant to equip her greatly expanded industrial system, to re-equip her railways, and to enable provincial and state governments to carry out schemes of electrification, irrigation and the like, which have had to remain in abeyance during the War”.†

Britain seems to be the sole country, apparently, from which such capital equipment can be purchased,

* cp. Para 48 of the Budget Speech, 1943.

† Para 49, Budget Speech, 27th February, 1943.

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according to India's foreign Finance Minister. Indian sentiment may, however, justly demur to this programme. With our experience of similar suggestions after the last War, we may well apprehend such programmes would be undertaken, rather to provide profitable employment for British capital and labour during the transition period of demobilisation, than to promote genuine industrialisation of India. In 1921, the Government of Bombay undertook a costly programme of replanning Bombay City, whose slums have not yet wholly disappeared, but whose reclaimed sea and other Development achievements have added a heavy load of debt. The Indian Railways rehabilitation programme, again, which the Finance Member expressly mentions, has a costly precedent since 1923-24, when a lump sum, to be spent over five years, of 150 crores was voted in one Budget, again to provide similar employment to British capital and labour, and to guard against Indians discovering cheaper, and more efficient sources of supply.

It is but natural that the presence of these funds in London should serve as irresistible temptation for purchasing plant, equipment and machinery, in the United Kingdom, and there only. Even assuming that full or some real value would be obtained when realising these investments; and assuming, further, that the United Kingdom would be in a position to provide such plant, machinery, and equipment, there is every ground to fear British producers might make of this temptation a kind of seller's monopoly of such material; and exact such terms from this country as may prove the purchases disproportionately costly.

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The use or realisation of accumulated sterling resources, whether as cash balances in England with the Reserve Bank of India (nearly Rs. 90 crores), or as sterling securities, being part of the currency reserve, is thus bound to raise the most thorny issues in the postwar age. It is wrong to tie down, or commit in this indirect manner, the future Government of India, — whose independence would then scarcely be worth the name, — to a given line of action meeting with the approval of the present Government of India. The first prerequisite, as Sir Jeremy Raisman has himself admitted in his speech, is to prepare "a careful and comprehensive survey of India's requirements" for an all-round co-ordinated system of intensive industrialisation of India. Such a Plan can, I venture to say, never be prepared, to the satisfaction of the people of India, by any government inspired and official dominated agency. And solicitude for India's real interests in the long run, professed by Sir Jeremy Raisman and his British colleagues in the Government of India, may be misunderstood by those who have bitter experience of the real nature of such sympathy. One instance should suffice. The National Planning Committee, appointed by a former Congress President, under the Chairmanship of Pandit Jawaharlal Nehru, is a body of wholly honorary workers, including some of the most distinguished sons and daughters of India. That body approached the Government of India, along with Provincial and many States Governments, with a request to permit some of their officers to serve on certain sub-committees set up by the main Committee, and to make some contribution towards the very modest expenses of that body. But while most of the Provinces

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and States cordially responded, the Government of India unceremoniously turned down both requests! Instead, they asked the National Planning Committee to admit to their deliberations some one named by themselves, without giving any authority even to that their own nominee to commit the Government of India to any views expressed, or suggestions made, by that body. How are we to regard such a nominee of Government on the Planning Committee? Charity suggests he would be holding a watching brief; but past experience does not place it beyond possibility that he would be a sort of secret service agent! But the Planning Committee had nothing to conceal — except perhaps such treatment given by the government of this country to such a body of Indians!

(c) MAINTAINING PRODUCTIVE ORGANISATION.

Financing such a war by taking up an increasing portion of the current wealth of the community, or anticipating its future production, must be so conducted as to maintain the productive and distributive machinery of the community without any avoidable prejudice to its industrial development. If production is stimulated, as seems inevitable, only in those directions where the war demands are most insistent; and if, in consequence, all other aspects of the productive organisation are neglected, the aggregate burden on the resources of the community would be much greater than need have been.

The same may happen also in distribution, if that process is thrown out of gear by war demands. The various measures of control and rationing, which, one after another, affect the various branches of production

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and distribution in India, are lacking in consistency, coherence, or co-ordination. They are just *ad hoc* expedients, often mere imitations of British precedents, utterly innocent of any plan or comprehensiveness. And, without that, their utility or service, even for the time being, will be very much reduced, while the burden caused by them will fall disproportionately on shoulders least able to bear.

Besides leaving the ordinary machinery for production and distribution with the least dislocation possible, while meeting all the wartime demands of the community, the flood of prosperity brought about by the war should also be left as little impeded as possible, if what little substantial benefit the war might bring is to be realised by the mass of the people. This is, of course, on the assumption that individualist economy continues, with private property as basis, and the profit motif as the driving force. Under a socialised economy, the question would not arise; but socialisation cannot be attempted by a foreign government, even if it did not consist of British aristocrats, Indian plutocrats, or Jewish technocrats.

The flood of prosperity is, no doubt, more illusory than real, more artificial than enduring. But, even so, it is imperative that the surplus wealth created by the war demand be taken up completely to meet war needs, — a course possible only in a completely socialised community. In a community, based and functioning on the individualist principle, taking up by taxation for the State all the surplus due to the war would not be a feasible proposition. The alternative, therefore, of allowing it

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to get into the hands of the people, as a controlled and regulated flow, is the only desirable policy even under war financing. Consumption standards would, no doubt, be materially affected in a totalitarian war. But this effect should not be such as to impair permanently the standard of living amongst the community.

Nor should war financing disturb disproportionately the financial structure and machinery of the community. If it is effected by such devices as reckless borrowing, or creating an unlimited supply of inconvertible paper money, both the desiderata mentioned above would have to be sacrificed. But this is a problem more of technique than of the essence of war financing, — nonetheless important to stress in the interests of the actual as well as future generations.

(d) UTILISING WARTIME SPURT FOR ALL-ROUND ADVANCE.

The same may also be said, particularly with reference to a country like India, of utilising, wherever possible, the stimulus created by the war, so as to absorb as much as possible, and assimilate, war-time prosperity into the ordinary economic structure of the country. Every war must be followed by a peace. Unless due precautions and safeguards are adopted, even while conducting the war, it may quite possibly happen that, even though the war may have been won, the peace may be lost. All the beneficial results of the sufferings and sacrifices endured might be unavailable for resuming the normal, economic activities of the country as early and as effectively as possible.

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This is particularly of interest to countries like India, where the peak of industrialisation has not yet been attained. Much remains to be done for the fullest possible utilisation of our own available resources, for the supply of our own markets, and for the improvement of the standards of living amongst our people. War has created a stimulus to employment, which is of a purely temporary character. The problem on demobilisation and reabsorption of those finding wartime employment of a very much higher level than was possible in their normal prewar activities, would be much more serious and complicated, if due attention is not paid to preserving and maintaining the wartime expansion in our industry, or productive organisation and equipment.

The wartime spurt must, accordingly, be utilised so as, primarily, to fill up the blanks in our industrial development of the country. Even if present plans are made for a totalitarian war effort only, the process of demobilisation, when it comes, must not find us unprepared to reabsorb and reassimilate the labour and capital now engaged on war production and active service. Some period of transition may be inevitable. But steps could and should be taken even now to make it smooth and rapid. For us the task would be not merely to return to prewar levels absorbing the men and material now diverted to war work to their prewar fields. We must utilise the skill and experience gained in the war so that the country attains national self-sufficiency within a short time, with a very much improved standard of living for its people.

It is for this reason that a comprehensive and co-

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ordinated plan of national development, with a definite time-table to establish or expand given industries or production facilities, arranging at the same time for the redistribution of the resultant aggregate wealth of the community, so as to improve the standard of living on the whole of the community, is an indispensable necessity, even at this stage. The attempts so far made to investigate into the potentialities of India seem to have confined themselves almost entirely to meeting the immediate war needs. And for that purpose bodies like the Roger Mission or the Eastern Group Conference naturally thought their duty well and truly discharged when they suggested ways and means for increasing India's productive capacity on lines already practised, and for the purpose only of meeting the immediate call. That would only condemn India for ever to remain producer of raw materials and foodstuffs for export, getting the products of industry she needs in exchange. We must consider the resources of India, not in the light of what she had been doing hitherto, but what she may be capable of achieving, as shown by the war. A vast and virgin field still lies untouched in this direction; and sound war financing can materially aid in its development.

DIMENSIONS OF THE PROBLEM IN INDIA.

It is difficult to give an exact idea of the cost of this war to India, as measured in money. Figures have been mentioned already which indicate that, compared to her ability, and judged with reference to her liability for such a struggle, India's contribution, in men as well as material, is by no means negligible. When we hear

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of the daily expenditure of a country like England running into £15 million,* the amount contributed by India may seem very small, as our daily expenditure for war now averages about Rs. 75 lakhs or about £600,400. But whereas Britain's per capita wealth is £116|- per annum, the corresponding figure for India is scarcely £6|- Britain's imperial possessions and ambitions are among the direct causes of the War; while India has no moral obligation to be involved in it. Finally, Britain may have hopes of substantial gains from this war, if it ends in her favour, even though all intentions to seek territorial aggrandisement are denied. India has and can have no such hopes. Judged in this light, it is impossible to deny that India has made in this war already a far more substantial contribution than could ever be expected of her.

The exact size of that contribution is difficult to determine. In the last war India added very considerably to her prewar military budget, besides making a substantial free gift to Britain's war costs. The actual defence expenditure in the last War (1914-18) was 202.7 crores, which, at the prewar rate (1913-14), was

* Sir K. Wood, the British Chancellor of the Exchequer, introducing the Budget for 1943-44, said that war costs in Egypt, India and elsewhere were creating a financial situation of some difficulty in the future (cp. The Times of India, April 13, 1943). What could be meant except the problem already discussed above. Britain, of course, is not sparing herself, raising 56% (2,907 million) from taxation in 1943-44, as against 52% in 1942-43; and 48% in 1941-42. But then Britain has so much,—ever so much more at stake, ever so much more hope of gain — tangible or not — which India cannot even dream of — not to mention the most important consideration that Britain is nearly 20 times as rich as India.

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about 63.7 crores more than need have been.* There was, besides, the "recoverable" expenditure, made by the Government of India on behalf of the British Government, which aggregated Rs. 297.2 crores in the four years of that war.* The free gift made by the Government of India to the British Exchequer aggregated another Rs. 190 crores, or a total of about 550 crores. All that, too, without counting the additions to the interest charges on debt incurred mainly for war purposes.

In the present war, the additions to our own pre-war defence budget in the war years 1939-40 to 1943-44, (i.e., including the budget estimates for this year), and the so-called capital expenditure, separately accounted since 1942-43, on account of the war, aggregate to 665.13 crores. Counting the same expenditure at the prewar rate (Rs. 46.18 crores for 1938-39) for 5 years, there is already an excess burden on this account alone of Rs. 435 crores† in round terms. Add to this the amount spent on account of the so-called "recoverable expenditure", the exact figure of which is not yet available, but which cannot be less than 700 crores upto 31st March 1943; and we get a total of over nearly 1135 crores, without counting the charges for the additional indebtedness incurred on account of the war. There has been this time no gift from India. But the amount locked up in sterling securities, in order to finance the war purchases of the British Government, may quite likely prove to be a gift, without India getting even verbal credit for it.

* cp. *Sixty Years of Indian Finance*, pp. 415-439, 2nd Edition.

† See 'anto' p. 38.

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These figures would, I trust, suffice to give some idea of the size of the burden imposed on this country. And if they do not, let me give a curious and interesting comparison to explain what this really means. 1100 crores have been found, from Indian resources only, in less than 5 years. Half of this sum, according to certain calculations made in the National Planning Committee, would suffice to provide all the capital needed to industrialise India, upto the limit considered bearable, in 10 years' time; i.e. between 50 to 60 crores per year. This sum, productively invested as capital in key and vital industries, still kept undeveloped in India to save the corresponding British industry from competition in the Indian market, would have provided decent employment to millions of Indian workers, relieved the excessive pressure on agriculture, added to the national wealth over 1000|- crores per annum, and very nearly doubled the standard of living of the masses of this country; whereas the sum now squeezed out by our present Government has only led to death or disability in war to thousands of Indians, a sizeable burden of debt upon the present and future generations of India, and undreamt of complications in the postwar task of rehabilitation! It reminds one of that classic case of cruel irony of history in which the late Mr. Gokhale was the leading figure. He had introduced a modest measure of compulsory primary education in India in 1911, the cost of which he estimated at Rs. 3 crores all over India, and that, too, spread over 10 years, or an annual increase of Rs. 30 lakhs only. But the serried phalanx of official opposition to the bill stoutly resisted this most modest

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measure to educate the children of India in the merest rudiments of modern civilisation, on the ground that India could not afford to raise so much money by taxation. And four years later the same Government were raising crores upon crores every year by taxation for wholesale destruction in a war in which India had no concern!!! Such are the ways of Imperialist governments!

The aggregate expenditure of the Government of India in the year 1942-43 was over 270 crores, of which the war expenditure alone was nearly 240 crores, or something like 75 lakhs per day. In comparison with the corresponding figures of England, this may seem very small; but in comparison to our ability and our chances of any gain, this is a very heavy contribution.

There is no mention, in all this, of the indirect cost due to the war. Loss of men and materials, diminution in production, in trade, and equipment of the country, is impossible to account for in terms of money. The dislocation caused to the country's economic system, also, by the unco-ordinated and unceasing flood of control regulations, over production as well as consumption, over food as well as raw materials, over transport and Exchange, is similarly impossible to evaluate in money. But their effects are nonetheless lasting and substantial.

SUMMARY.

Before I conclude this lecture, let me summarise before you, briefly, the expedients for financing a war practised all over the fighting world.

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(a) TAXATION.

The commonest expedient is taxation, i.e., taking up compulsorily that portion of the country's current wealth, which can be taxed into the exchequer to be devoted to war purposes. This burden falls, naturally, upon the generation actually engaged in war. It is, accordingly, unlikely to complicate the national economy for succeeding generations. The economy as well as the equity of this method are too well established by the practice of all enlightened nations, for more than 150 years now, to require any further expatiation upon it.

(b) BORROWING.

There is, however, a limit to which taxation can help to provide war finance, especially in a gigantic struggle like this; and so it must be supplemented by other devices. Needless to add this limit is not a fixed quantity, but varies according to the ideas of social, distributive justice entertained at the given moment in the given community.

A variant of this method consists of living on the accumulated wealth of past generations. That also means a burden mainly on the existing generation. It consists in using up accumulated reserves, stocks of raw material and foodstuffs, neglecting to provide for the usual wear and tear (or depression) of the productive equipment of the community, realising its other liquid wealth like gold, silver, claims held by one's nationals on other countries wealth abroad. These are, however, practicable only for richer communities like Britain, France, or America; but

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have little scope in a country like India.*

The method most commonly used, however, even to-day, is borrowing, or utilising the national credit to create a mortgage on the income of succeeding generations. Borrowing at home is practicable for almost every community; and a large number of devices have been developed to make it effective and adequate. There must, however, be a surplus of wealth seeking investment for this method to succeed; and the borrowing authority must command sufficient confidence in the people.

Borrowing abroad, on the other hand, is practicable only for countries, whose economic position is strong enough to make their credit with foreign nations strong, even at the time when their wealth is produced for destruction, and their productive ability is being materially reduced.

Until the last world war, borrowing abroad on a large scale was seldom attempted. The complications created by the large scale international borrowing of 1914-18 have made that expedient a doubtful recourse.

The size, again, of the present war costs places very definite limits beyond which borrowing abroad would not be practicable. The use of national credit to

* The British National Wealth was estimated for 1941-42, at factors cost at £6,200 million. Of this Government Expenditure accounted for £4,200 million, nearly £2,400 million of which was provided by revenues, or taxation of all kinds. The people's consumption was estimated for the same period at £4,496 million, at market prices. As the figure for the national wealth at market prices was reckoned at £7,346, — allowing for the rise in prices, — there was estimated a national deficit at £1,350 million (cp. 'Economist' 17-4-42).

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meet the unproductive expenditure on a war must, therefore, be resorted to with great reserve. For it creates a mortgage on succeeding generations; and the price those generations will have to pay from the fruit of their labour for the follies of their predecessors, may become unjust as well as unbearable.

(c) LEND-LEASE.

Because of all this, a new method has had to be invented in America, popularly known as the "Lend and Lend" system, to meet the extraordinary demands of this worldwide war. It was introduced, primarily, to economise in the transfer of valuta, to avoid heavy fluctuations in foreign exchanges due to the heavy trade in munitions etc., between belligerents and neutrals from which the former may be buying. The neutrality legislation of America had prevented the deep sympathy the United States felt with Britain in its struggle against Nazism, from manifesting itself, in a form more concrete than was permitted by the "Cash and Carry" system. Britain had at first arranged to pay cash for all she bought from the United States, and carry it herself to her own shores. But as the struggle developed, as the tempo of destruction of Britain's own means of production and transport intensified, the need for buying in America became ever greater; and the means provided to pay for the same became ever smaller.

By the end of 1940, Britain was approaching the end of her cash resources in America. It was at the same time evident that if Britain fell, the next turn would be of America herself, who was even less prepared than

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Britain to fight the Nazi menace on equal terms. To support Britain in the War was thus a matter of self-defence for America, who saw clearly the threat to herself, and needed time to regear and reorient her defence as well as production system. Short of declaring war herself, the utmost America could do was to provide the munitions of war apparently free of cost. This is, in conception, design and operation, a wholly new method of war financing. It has now been at work for over two years, and seems to have met the needs of the United Nations satisfactorily: Originally intended to assist Britain, it has been extended to apply to all the United Nations who desire to participate. A series of Reciprocal Aid agreements have been made under it between the United States and the several members of the United Nations. The Government of India are negotiating for a similar agreement for this country, also; and, meanwhile, Reciprocal Aid under the system has flowed freely both ways. I shall describe the working of this arrangement so far as India is concerned more fully in the next lecture.

I shall examine in my next Lecture the application and working of these special methods of War Financing, and consider their reaction on Indian national economy.

WAR FINANCING WHOLLY UNPRODUCTIVE.

As mentioned last time, while financing a war of this dimension, we must bear in mind the peculiar characteristic of all war expenditure. Obviously, it is an expenditure of an unproductive, even destructive, character, which does not help to create any tangible asset, or equipment, that may be expected to yield re-

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turns in the future.

At first sight almost all governmental expenditure may seem non-productive, especially in countries with an individualist social system. The function of the state, in such a society, was conceived to be to maintain law and order; and the duty of government, its executive organ, was confined to acting the policeman. But hardly anywhere is now-a-days this ideal of the *faineant* state maintained in its naked simplicity. The state is becoming more and more parental, more and more constructive, directive, initiative; conducting a number of public utility services; operating a number of directly productive enterprises, and discharging a vast variety of functions in supervising, regulating, defining, and controlling activities of citizens, which each result in some benefit, or some direct accession to the material wealth or productivity of the community, that may well be deemed a fit return for the outlay.

But expenditure on war, and even on preparations for the same, results in nothing but fire and smoke, even if at first sight it appears to produce material commodities, like ships and planes, guns and shells. In a war of this magnitude, whose ravages are particularly heavy on the means of producing new wealth, this aspect of war expenditure must necessarily be stressed, since not only all outlay upon it is a waste; but its immediate effects are to reduce the productive capacity of the communities affected even after war has come to an end.

EXPERIENCE OF WORLD-WAR I.

The only return we could set off, generally speaking,

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against the immense outlay now being made on war, would be the sense of security or independence, and the consequent possibility of a more energetic conduct of productive activity, that the victorious countries may be said to attain.

But this is misleading—an illusion; nor is it shared equally by all. There have been instances in the past where wars have been alleged to have paid for themselves. Annexation of enemy territories, acquisition of new productive resources, or trading and other privileges, or even cash indemnities, have been exacted as the price of defeat. But they have seldom met the entire cost of such a war, even if we do not reckon the loss of human life and happiness.

The experience of the last European war, which was ended by a treaty demanding incredible indemnities, called reparations, from the vanquished, goes a long way to show, that, no matter how high and well-founded the expectations may be, for recovering any substantial part of the war losses or damage in the shape of such reparations from the defeated enemy, they are doomed to be disappointed, to defeat themselves. For the capacity of the vanquished to bear such burden must also be taken into account.

The allies at the end of the last war seem to have over-reached themselves, by presenting a Reparation bill to Germany, obviously far beyond the ability of Germany to meet. The latter's allies, one after another, declared bankruptcy in one shape or another. And though, for a time, Germany was made to put up a pre-

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tence of readiness to pay according to her ability if the reparations were substantially reduced, the ultimate end, even in that country, was complete repudiation.

The birth of the Nazi Germany, and all its brood are directly traceable to the intransigence of France in its Reparations demand, to the temporising of Britain, now supporting France, now encouraging Germany; and to the growing realisation of sheer inability to meet the Versailles burdens by Germany. The Nazis skilfully exploited this consciousness to their own advantage; and so, when they had at last captured power, they sealed the doom of the Versailles settlement, which had long since been impending.

THE VICIOUS CIRCLE.

As a consequence of the German inability or refusal to honour the Reparations bill, France was unable to maintain her own national economy, built upon the hope of squeezing Germany till the pips squeaked. Her attempt to take by force what she could not obtain by negotiation was a disastrous failure. The Ruhr adventure not only cost her the friendship of Britain; it demonstrated beyond possibility of mistake the inability as well as unwillingness of Germany to honour her forced signature. It was impossible thereafter to live any longer in such vain hopes. French statesmen, recognising the inevitable, settled down to reconstruct their own national economy, taking such small consolation as was held out by the Dawes Plan of settlement with Germany.

The breakdown of the French national economy was manifest in the deliberate scaling down of the Franc.

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the French monetary unit; and writing down in proportion her own internal debt. Having bled her own people, France declined to pay her debt to her former allies,—both Britain and America, especially as they did not support her adequately in her attempt to make recoveries from their common former enemy.

Britain was, in her turn, driven to the same course, vis-a-vis America, after an endeavour to honour her bond for about 10 years. And the turn of America was not long delayed. Betrayed into a sense of false optimism by Germany's insatiate demands for loans to build up her industrial strength anew to meet her obligations to her conquerors, America had a hectic spell of prosperity between 1924-1929, which was wholly illusory. For America would not accept the only mode of repayment to her—the produce of the countries indebted to her,—lest her own industries should suffer in her own markets, or even in the other markets of the New and Old World. Economic depression set in, therefore, all over the world, from the effects of which leading countries had hardly recovered before the preparations for the next struggle had started.

INDIA'S EXPERIENCE.

So far as Indian experience is concerned, there is no hope of recouping any portion of the outlay on war by territorial acquisition, indemnities in cash or kind, or economic advantages in other parts of the world. In the last war, India's cost of expanded military establishment, to fight in Britain's European war, for 1914-18 inclusive, was Rs. 222.7 crores. Taking the rate prevailing in

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1913-14 to be India's normal expenditure on that account, there was still an excess of Rs. 63.1 crores. In addition, India made on that occasion a free gift of something like 190 crores, against which benefits received by way of Reparations hardly amounted to a fraction of 1 per cent. In the present war, taking the normal expenditure at the rate of the last pre-war year, 1938-39, on account of the country's defence at 46 crores, in round terms, the aggregate up to the end of 1943-44, including the budget figures for that year as given in the last financial statement, will amount to 665.13 crores, including the so-called capital expenditure comprised in the Defence Budget. At the pre-war rate, the amount for the same period should be 230 crores, or an excess of nearly Rs. 435 crores, assuming that the budget estimates for the current year are not exceeded, as they have had a habit of doing in the last 4 or 5 years.*

ADDITIONAL BURDEN BESIDES DIRECT WAR COSTS.

This, it may be added, is the amount, charged directly to the Indian Exchequer, the aggregate cost to her of defence, and meeting aggression in Europe, Asia and Australasia. There has been, besides, considerable outlay, the so called "recoverable expenditure"—on behalf of His Majesty's Government because of the war,

* The first War Budget presented in February, 1940, estimated the additional cost due to the War at Rs. 5.11 crores. But in November, 1940, the increase seemed to be much greater, i.e., of about 14½ crores in war expenditure, and 7 crores more in civil administration charges, without reckoning a shortfall in revenue customs of Rs. 3 crores. Altogether, on that date, the deficit for 1940-41 was estimated at 13 crores, as against the previous estimate of 7.16 crores. The result, however, in February, 1941, was slightly better, the deficit being reduced

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which amounted to over Rs. 700 crores by the end of March, 1943, and may be much more as the war is prolonged. This is at present met largely by creating paper money. Whether the recovery of this outlay would be effected in substance is a question that may be well left to the future. Our experience with regard to similar outlay in the last war, aggregating about 300 crores in 5 years, goes a long way to prove that we would be sadly disappointed if we entertain too sanguine a hope of obtaining full, material, equivalent in return on such accounts.

CURRENT RESOURCES INADEQUATE.

The size of this unproductive, wasteful, expenditure makes it particularly impossible to meet it from any current resources. Even for a country so rich as Great Britain, or the United States, nobody thinks of meeting the whole of such costs from ordinary revenue, or the surplus of production. In Britain and the United States,

to 8 crores as against the estimated 13 crores. For 1941-42, a deficit of 20 crores was budgetted; but it increased in sequel, so that for 1942-43, they budgetted for another deficit of 47 crores. That is doubled to 94 crores, according to the budget for 1943-44, for which year the latest estimate is another deficit of 60 crores. The net deficits recorded in the latest Memorandum accompanying the Budget is (in crores Rs.) for:

	1939-40	..	Rs.	Nil.
	1940-41	..	"	6.53
	1941-42	..	"	12.69
R.E.	1942-43	..	"	94.60
B.E.	1943-44	..	"	40.19
			Total Rs.	154.01

N.B. The figures for the first 3 years give final accounts, Revised Estimates for 1942-43, and Budget Estimates for 1943-44. In each case, except the last, they are given after making allowance for additional taxation.

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they meet a much larger proportion than this country does from taxation. At each successive war budget, the present Finance Minister of India has indicated his policy to meet only about a third of the expected increase in cost from taxation, and the remaining $2/3$, by borrowing. By this method, a disproportionate share of the burden is passed on to the shoulders of the future generations, against which they will be unable to show any substantial set off, or productive asset.

WAR EXPENDITURE, A RECURRING BURDEN.

The policy of passing on a substantial portion of the burden of war financing is often explained or excused on the ground that these are non-recurring charges. As a matter of fact, as the ordinary defence budget, it is everywhere a recurring outlay, which is regarded in many well-informed quarters as a sort of insurance against war. The premium, however, has been paid in ever increasing amount. But it has neither prevented war; nor substantially reduced its burden when one breaks out. Apart from this, wars have a habit of recurring frequently. War expenditure, therefore, taking one generation with another, can scarcely be regarded as altogether non-recurring. Equity as between generations demands, therefore, that its burden be borne in as large a proportion as possible by the generation which causes or fights the war, leaving the generations which follow to bear each the load of its own sins, follies, or mistakes.

MODES OF WAR FINANCING.

There are three chief methods of meeting war burdens of the size the present struggle imposes. The

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relative proportions of these depend upon the idiosyncrasies of the financial authorities for the time being, and the traditions, circumstances, and economic outlook of the communities concerned.

A. TAXATION.

The most commonly resorted method is to impose additional taxation, and, by that means, to take up that portion of the surplus wealth of the community, which is not needed for individual consumption, capital investment, or accumulation for the future. All sound financiers now follow this principle, and impose taxation to the utmost level possible, leaving only the unavoidable portion of the additional cost to be met by borrowing, thereby passing that section of the burden to the following generation.

Some idea may be had of the extent to which taxation has been resorted to in countries like the United Kingdom or the United States, from the fact that more than 50 per cent of their war budget is met by additions to the taxes. The greater portion of these is derived from direct taxation, that is to say, it falls on the shoulders that are supposed to be best able to bear.*

Against the total expenditure in Britain for 1941-42, of some £4775 million, revenues provided £2074 million, of which more than 95 per cent was provided by tax-revenues. Direct taxation provided for 60 per cent or 1205.5 millions. The proportion of direct and indirect

* The following table, taken from the 'Economist' shows the relative amounts and proportions of direct and indirect tax-receipts in the United Kingdom upto 1941-42, and as compared

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taxation, which in 1913-14 was about 47.8 and 52.2, respectively, had changed by 1941-42 to 61.4 and 38.6 respectively.

In the United States, the burden is perhaps not yet quite so heavy. But even there attempts are being made to levy as large a portion of it from taxation as possible, with direct taxation bringing in the bulk.

Let me point out, briefly, in passing, that taxation is not merely a means of raising the wind, even in war-time. It is a most powerful weapon, not only of rendering very great social service, but also a means of tempering the inequalities of wealth distribution in individualist society. The imposition as well as incidence of such taxation must, therefore, be very carefully watched, even in war-time.

B. BORROWING—LIVING ON CAPITAL.

But taxation has its limits; and the balance has to be obtained in some other way. It is possible for a rich community to pay a considerable proportion of the war cost by means of living on its capital, or using up its accu-

to 1913-14. The Budget for 1943-44 gives the amount met from taxation at 56% of the total expenditure.

Proportion of Direct and Indirect Taxation in Br. Rev. System.

Figures in Million Sterling.

Year.	Dir. Tax	% of Total	Indir. Tax	% of Total
1913-14	78.0	47.8	85.0	52.2
1929-30	376.9	55.6	300.0	44.4
1936-37	400.5	51.1	382.6	48.9
1938-39	499.3	55.6	397.1	44.4
1939-40	565.8	55.6	451.2	44.4
1940-41	778.0	57.3	580.7	42.7
1941-42	1205.5	61.4	756.5	38.6

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mulated resources. It might, for instance, use up the accumulated stocks of materials; or neglect to provide during the war for wear and tear, or depreciation as it is called. It might allow the capital equipment to be used intensively without adequate or any provision to arrange for its repair, replacement, or restoration when worn out. These methods have their own advantages as well as drawbacks.

The productive organisation of the community, thus dissipating its resources, would naturally suffer; and, when the war comes to an end, its ability to resume its normal economic life would be necessarily reduced. Very often, therefore, richer communities resort to the utilisation of more liquid forms of their accumulated or inherited wealth, by realising their gold or silver reserves; or disposing of the securities owned by their nationals, — particularly of those foreign countries from which they have to purchase the bulk of their war requirements. Britain adopted the last expedient, mobilising and commandeering all British holdings of American securities almost at the outset of the war. A substantial reserve of purchasing power in America, was thus formed, which also served as backing for sterling in exchange with dollar. But even British resources of this kind did not suffice to meet the increasing strain of this war;* and, had it not been for the timely advent of the Lease-Lend system, it is open seriously to question whether Britain would have been able to pay cash or real wealth for the supplies which she wanted from America.

* See *supra* p. 35.

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In India, too, Britain has partly repeated the same policy. British holdings of the sterling debt to India have been realised, or repatriated, thanks to the war-time purchases of Britain in this country, and accumulations of the sterling balances in that country. But this has served hardly for a fraction of the British war-time obligations in India, though the total of British capital investments in India was computed by a writer in the *Statist* at over £1,000 million.* Britain, therefore, goes on buying goods or services in India; and pays for the same by issuing I.O.U's through the Reserve Bank of India, which prints more paper money against this cover.

Notwithstanding, however, these ways of supplementing, the bulk of war finance was obtained by Britain and by other countries, by borrowing at home and abroad, wherever necessary and feasible. According to a remark of the Chancellor of the Exchequer last April, the cost of this war to Britain in three and a half years was £13,000 million, or over £15,000 million if we include debt charges.** The public debt of England has consequently been increased to nearly £14,000† million

* See the *'Statist'*, of 2nd September, 1939, p. 283. According to this authority, British capital investments in India, for which Government is in some way responsible, amounted to £420 million; while similar investments for which Government is in no way responsible was estimated at between £651 to 700 million. What that figure is to-day it is difficult to say. The amounts for which Government was in any way responsible has now been practically all repatriated. The same policy might have been applied in the beginning to private British investments also; but now it is too late, as market quotations are far too high.

** cp. The Budget Summary, *Times of India*, April 14, 1943.

† Britain's national debt has increased at the rate of roughly 2000 million pounds every year since 1939, and there is every

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pounds, by the end of 1942-43, without counting over £1100 million worth of aid received under the Lease-Lend system from America.

India has also had to resort to borrowing. As already mentioned, the proportion of borrowing has been as 2:1 of taxation. Out of the Rs. 430 crores of direct, additional war cost to this country, roughly about 175 crores may be said to have been obtained from additional taxation. The balance must be said to have been obtained from borrowing, or the assistance obtained from lease-lend.

C. LEASE-LEND.

The Lease-Lend system is the latest addition to the traditional methods of war financing, which will be fully described later on.

TAXATION IN INDIA FINANCING THIS WAR.

Taking these several methods for financing such an outlay one by one, we find that additional taxation was resorted to in India almost from the very first year of this war. The estimates of yield of the several taxes seem to have always been very much off the mark, as is evidenced by the repeated deficits in Budget after budget since 1939.* This deficit, moreover, has shown a tendency at each successive stage steadily to increase. There is thus no warrant to believe that the estimated deficit of 40 crores, allowing for new taxation, in 1943-44, will

reason to believe it will go on increasing at least at that rate while the war lasts. cp. The Budget Speech of April 13, 1943.

* See *supra* p. 80.

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not exceed that figure, and reach revised estimates of 1942-43 i.e. nearly 95 crores.

(a) DIRECT TAXATION.

Of direct taxation, the income-tax and super-tax, together with the Corporation-tax, were in existence when the war broke out. Though in the first War Budget no additions were made to these taxes, in November 1940, they were supplemented by a 25% surcharge on all taxes on income, including super-tax and corporation-tax. In a full year this was estimated to yield 5 crores; but, thanks mainly to the fortuitous prosperity engendered by the War, the yield has in the final accounts proved much greater.

As the deficit, however, went on growing, the surcharge was increased in 1941-42 to 33 $\frac{1}{3}$ %, estimated to yield another 1.90 crores in a full year. The following year this surcharge was again increased roughly to 50%, while in 1943-44 the central surcharge was still further increased on incomes over Rs. 5,000, the increase ranging from 1 pie to 5 pies.

"The effect of these changes will be," said the Finance Member, "to impose a surcharge amounting uniformly to 66 $\frac{2}{3}$ % over the basic rate of income tax. At the same time, there will be an increase in the super tax, on the slabs of income between Rs. 25,000 and 3½ lakhs; here the surcharge will be raised uniformly by half an anna in the rupee. . . . Corporation tax will also be raised by half an anna to a rate of two annas in the rupee. The excess profits tax will be extended to cover the

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profits of a further period of one year; but the rate of 66 $\frac{2}{3}$ % will remain unchanged".

Additional yield of Rs. 7 crores was estimated from these changes.

EXCESS PROFITS TAX.

A new Direct Tax, called Excess Profits Tax, was introduced, in imitation of Britain, in 1939, at the rate of 50% on the excess of profits over those of a standard year, chosen by the assessee between 1935 and 1939, subject to a minimum of Rs. 30,000/- being exempted from taxation. It was originally estimated to yield Rs. 3 crores; but the estimate has been steadily exceeded till for 1943-44 it is expected to reach Rs. 40 crores.

DEFERRED INCOME.

Another innovation in the Indian system of direct taxation, also introduced in imitation of the British model, was made in 1942, which introduced a measure of compulsory saving, or deferred income invested in war loans, through the medium of taxation. A certain proportion of the tax on wages or salaries, liable to taxation, may, at the option of the assessee, be invested in Government war borrowing, which would be returned with a stated interest at the end of the war; but which would be treated as a tax-payment if not so invested. The principle is not applied compulsorily to incomes from dividends on shares. Certain corporations have, however, begun paying part of their dividends in the form of savings certificates, the saving being invested in war-time borrowing. The main principle is said even now to be seriously under consideration, though what form it would event-

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ually take, if it does materialise, is impossible to say.

Incomes from agriculture being still exempt from central taxation, Direct taxation of this kind affects only a very small fraction of the population of India—perhaps about 1/10 of 1 per cent. The total yield from all these sources during the war years is given below:—

Income Tax, Super Tax, corporation and E. P. Receipts*	
	(in crores Rs.)
1938—39	15.78
1939—40	16.58
1940—41	21.77
1941—42	36.67
R.E. 1942—43	67.10
B.E. 1943—44	89.90
Total from 1939—40 to 1943—44	<hr/> 232.02

EQUITY OF DIRECT TAXATION.

The one recommendation of direct taxation of this kind is that it can be adjusted to the ability, as measured by money, of those on whom it falls. Its burden is impossible to be shifted to shoulders other than those originally designed to bear it.

The proportion of direct tax receipts in the central Indian Budget was, in 1939-40, about 20% while in 1943-44 it is estimated to form over 46%. This is a welcome change. But, even so, it compares unfavourably, from the point of view of distributive justice, with the similar burden in Britain or America.†

* These figures are taken from the Explanatory Memorandum on the Budget of the Governor-General in Council, for 1943, p. 25. For similar figures under other heads the same authority will be quoted.

† See 'ante' p. 84.

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The only extenuation of the Indian position is that the burdens are imposed by an alien bureaucracy, not commanding the confidence of the people it has led into this war. A national government, commanding the country's fullest confidence, would very likely have steepened very much more these imposts. Even such an eminently equitable tax, as the duty on the excess income due to the war, is maintained at a comparatively low level for the same reason; while corresponding measures to prevent a glut of purchasing power in the hands of the consumers, and so avoid rise in prices, are hardly even thought of.**

Under the constitution of 1935, for the Government of India, a certain portion of the collections of the income and supertaxes has to be made over to the Provinces under the Neimeyar Award. The increase in the rates of some of these taxes may consequently be said to go, not exclusively to meet the increasing war costs. It

** It would be worthwhile contrasting the India, British, American and German models in this sector of public revenues. The Indian Excess Profits Duty is a copy of the British, and different from the German device, which limits absolutely the profits from enterprise, fixing a maximum of profits of corporations. In America there has been an attempt at fixing the maximum income derivable by individuals from any source; but the attempt has not yet succeeded. In Great Britain, the direct taxation rates have been so put up that there is, for all practical purposes, a ceiling somewhere between £6000—£7000 per annum for individuals, beyond which all income is taken away by taxation.

There may be room for legal avoidance of the tax; and there may also be some extra-legal evasion. But, looking at the figures, it seems unlikely that any very considerable avoidance or evasion takes place in those countries. The reason, once more, is that there is a complete identity of purpose between the Government and the people there, which is so sadly lacking in India.

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benefits also the Provincial governments to some extent. But the increase in the provincial charges of civil defence &c. more than account for the extra benefit thus received. In the above discussion we have dealt with the central Government only.

(b) INDIRECT TAXATION.

Indirect taxation in India consists mainly of the customs duty on imports and exports; several central excise duties, mostly of recent introduction, in the last 15 years, — and the duty on salt.* The yield of the largest item in these, viz. the customs revenue, has been shrinking steeply and steadily, owing mainly to the decline in the sea-borne trade, thanks to the war.** The

* Receipts (in crores of Rs.) from

Year	Customs	Central Excises	Salt Duty
1938-39	40.61	8.06	8.12
1939-40	45.88	6.52	10.86
1940-41	37.30	9.49	7.67
1941-42	37.89	13.15	9.20
R.E. 1942-43	31.00	12.68	10.50
B.E. 1943-44	30.00	25.42	9.50
Total for 5 years	182.07	75.26	47.73

Grand total of all 3 for 5 years 305.06

N.B. The totals are given only for the War period. The figure for 1938-39 is given to facilitate comparison.

** India's Balance of Trade in merchandise.

Calendar Year	Imports	Exports	Balance
1940	163.01	218.92	55.90
1941	182.38	235.46	53.14
1942	105.64	195.16	89.52

The foreign Trade of India had in fact shown an upward trend in 1941, because, probably, of Japan's heavy purchases for her war preparations. Even though the aggregate volume of the trade has fallen, the credit balance in favour of India has risen sharply in 1942.

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war has not merely reduced the imports, because of the diversion of industry in the countries, from which we used previously to import, to war production; but also because of the lack of shipping, and the risks of over-sea transportation by such shipping as is still available.

Frequent additions to the several items in the Central Excise schedule, such as sugar, kerosene, matches, and the recent introduction of duty on tobacco, and vegetable ghee, have helped to improve the yield from this source. Taking these all together, while customs receipts seem to have shrunk from 45 crores in 1939-40 to 30 crores in the budget for 1943-44, the Central Excise revenue appears to have increased from 8 crores at the commencement of the war to about 25 crores estimated for the year 1943-44.

Let me summarise here the additions, or alterations in the rates of the several Central Excise Duties. The very first war budget (1940-41) added to the rate of the petrol duty so as to derive an additional 140 lakhs from that source. The duty on refined sugar was increased to Rs. 3|- per cwt. at the same time, and was calculated to yield 190 lakhs more. In the next Budget, November 1940, added 100% to the excise duty on matches, increased the import duty on art silk yarn and thread from 3 to 5 annas per pound; and introduced a new excise on pneumatic tyres and tubes, — all together calculated to yield Rs. 221 lakhs. |

Petrol duty was increased by 25%. In the following budget (1943-44) two new excise duties, one on home-grown tobacco, and the other on vegetable

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product mainly ghee, the rate of which was subsequently reduced were added, the two combined expected to yield Rs. 11.40 crores.

Considerable changes have been made in the tariff schedule, by a 20 per cent surcharge on most of the import duties imposed on 1942-43, except on raw cotton, petrol and salt. On the export side, a considerable portion of the duty on jute and its manufactures has, under the constitutional arrangements, to be made over to the jute growing provinces. As trade in that commodity has also fallen, the decline in the aggregate receipts in customs is unavoidable.

The Indian customs tariff is a combination of productive and protective duties, in which, under the stress of the war, attention is mainly paid to the former side only. The excise duties constitute a burden on the country's newer industries, the only justification of which may be found in the disproportionately heavy fiscal protection afforded to some of these industries, e.g. sugar. That excise, is also compensated by the fact that the producer of raw materials is given some share, however slight, in the benefits of the fiscal protection to the industry based upon that foundation. The total burden is, of course, borne by the consumer, who gets little consideration in all this, beyond, perhaps, the general benefit of rising employment in an age of progressive and rapid industrialisation.

The proportion, moreover, filled by such indirect taxation in the total revenue budget of the country is overweighted against the poorer sections of the commu-

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nity, which form over 80% of the population. On the whole, the Indian Tax system cannot be described, by any stretch of imagination, as a model of equity; and the war has done little to redress the balance. A foreign bureaucracy, not commanding the full confidence of the country, cannot afford to alienate their most substantial supporters, whose interests are subtly linked up with their own. And this apart from the subconscious class sympathy between the overpaid foreign bureaucracy, and its capitalist, profiteering, counterpart in the country itself. None but a truly national government, possessing the entire confidence of the masses of the country, can defy purseproud indigenous plutocrats; and attempt to redress and redistribute the burdens of taxation more justly even in the midst of a war.

(c) TAXATION ON TRANSPORT AND COMMUNICATION.

A substantial contribution has also been derived from taxation of transport and communications services in the country. The railway contribution to the general budget, little over 137 lakhs in 1938-39, has steadily been growing, till, in the budget for 1943-44, it has been estimated to amount to 27.10 crores, and may quite possibly be more. Railways rates and fares have been surcharged more than once.

Similarly, the Post Office, with all its services, was just able to make both ends meet in the days before the war. By increased rates and charges, it has been made steadily to increase its contribution in every year of the War. In 1943-44, it is estimated to contribute over 8 crores.

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The additions to the charges in both these departments must be described as taxation. For these are monopoly services, whose charges cannot wholly be regarded as being equivalent only to the price for service rendered. These charges on transport and communications between them appear to have contributed, during the War years, Rs. 103.69 crores, i.e. 83.89 crores by railways, and 19.79 crores from posts, telegraphs and telephones. In an aggregate expenditure during this period of Rs. 920 crores, this works out at about 11% . .

Profits of such commercial departments of the State may well be regarded as good standby during an emergency of this character. But in so far as they become burdens on the national economy, i.e., on the production and distribution of commodities and services within the country, or prove a tax on knowledge, e.g. increase in postal rates, they must be condemned.

Extension, however, of direct productive activity by the State, and its commercial enterprise, seem to me to be the only satisfactory way of redressing inequalities in the incidence of tax burdens.

It must also be noticed that the income derived from these departments of the state is largely illusory. For the bulk of these receipts are derived from public or military traffic, or traffic owing directly to the operation of the war. They are, in fact, payments from one pocket of the State into another; and, as such, no new wealth can be said to have been taken up for purposes of the war. These war-time surcharges and additions should be the first to be removed when the

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present emergency no longer provides an excuse.

(d) MINT AND CURRENCY RECEIPTS.

Another department of the state, which has also been made to yield increasing amount of revenue in this war, is the Mint, and the Currency system as a whole. The aggregate contribution from these sources is reckoned at 17.21 crores in the 5 years of the war, including the budget for the year 1943-44. The profits of coinage are largely due to the heavy minting of smaller coins, of which there has more than once been a serious scarcity. For the rupee itself there has been no great mint activity, thanks mainly to the increase in the price of silver, and the introduction of one rupee currency notes.*

On the other hand, the currency department of the State, owing to the very large inflation that has taken place, and the increase in the volume of securities and the interest received from the same, adds a respectable figure to Government revenues. The Government share from the profits of the Reserve Bank is considerable; and one which ought to grow, if that institution is properly managed, without any burden on the national economy. The heavy seignorage on small coinage, and even the rupee, has ever been a sore point of criticism, the more particularly as the Government of India have never hesitated to disown their solemn obligations, every time the silver market went against them, thanks to their own shortsighted policy, or disregard of Indian interests. Criticism of the increase in the note-issue has been ex-

* cp. however, Table, 'ante' p. 53.

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pressed elsewhere, and so need not be repeated here.

Summing up, we may say that the direct taxation has contributed Rs. 232.02 crores, or 25% of the total outlay in 5 years, indirect taxation Rs. 306 crores or 33% Commercial Departments of the State Rs. 103.68, or 11% other public Departments Rs. 17.21 or 2%. The balance was derived from miscellaneous sources of revenue like opium, interest, and other receipts, such as the special contribution in connection with the War Risks Insurance fund. The aggregate deficit of expenditure over revenue during the same period may be estimated at about 175 crores in round terms, which has been met largely by borrowing, on short or long term.*

CONCEALED TAXATION.

Over and above the visible tax burdens, just detailed, there is a very substantial burden on India's national economy in the shape of what may be called 'Concealed Taxation'. It takes place mainly through inflation, or excessive issue of paper currency, unbacked by corresponding substantial value.

Inflation has been popularly defined, by a recent writer in a local paper, to consist of

- (a) an enormous rise in the circulation of notes,
- (b) backed purely by Government Securities and discounted commercial paper;

* The aggregate revenue raised in these five years, including the estimates for 1943-44, is in round terms 735 crores against a total expenditure charged against this revenue for the same period of 920 crores, or a deficit of 185 crores, which must consequently be met by borrowing in a variety of forms.

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- (c) lacking gold, silver, and foreign exchange cover,
- (d) fresh notes being issued without any relationship to the existing currency legislation;
- (e) disorganisation of public finance as shown by budgetary deficits going from bad to worse, and
- (f) the gaps filled by further unlimited issues of paper notes, backed only by worthless Government Securities.

Practically all these features are to be found, in a fairly remarkable degree, in the growth of paper currency in India, as stated earlier. The process of inflation, it may be mentioned in passing, is not confined to paper money only. Debasement of the rupee is also a concomitant, which has not attracted the attention the matter deserves. The main cause of this increase in the credit balance of payment to India,* is due chiefly to heavy purchases on account of the British Government in India, in connection with the War. Notwithstanding the fall in the foreign trade of India, these purchases operate to increase India's exports for all practical purposes. At the same time the reduction in the so-called Home Charges, or payments from India for the "invisible" imports from Britain, mainly because of the reduction in the sterling indebtedness of the Government of India, and the consequent elimination of a very substantial item in the Home Charges, has led to a disproportionate and steadily expanding balance in favour of India.†

* See Table 'ante' p. 50-53.

† See 'ante' p. 93.

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In normal times, this balance would have been settled by the payment of gold, or goods equivalent to gold. But Britain, from whom almost the whole of this credit balance is due to us, has parted with practically all her gold* and valuable dollar securities to America, before the shrewd Yankee devised the Lease-Lend system. The latter keeps up a good show of obligation, and yet makes the best bargain for the help America must give Britain to keep the latter going, and maintain the fight in Europe, which would ensure America's freedom from invasion. Nor is Britain able to provide goods in exchange for the purchases she makes in India, because her own production is wholly reoriented to war needs, and because also of the lack of transportation. The only mode of making payment open to her is to issue I. O. U.'s, and, through them, add ceaselessly to the volume of India's paper money backed by Sterling Securities. A subordinate, dutiful Government of India is ever willing, like Jeeves, to oblige, without a thought of India's own interests.**

I have already referred to the unending tale of ever increasing budget deficits in India, and the consequent need to print, and ever more to print, paper money, to provide for this insatiate demand of British war purchases.

The vast increase in Government expenditure, unsupported by corresponding increase in revenue resources, has left a larger and larger gap to be filled by bor-

* cp. Table, *supra*, p. 35.

** cp. Table on p. 50-53.

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rowing. India's present Finance Minister is an eminent specimen of that world famous race of finance capitalists, to whom the idea of taking up by taxation as much of the surplus income of the community as may be possible must be constitutionally unwelcome. His subconscious class sympathy must probably be responsible for his steady policy of keeping additional taxation to less than a third of the estimated deficit; and trusting to borrowing for the remainder. As the deficit has in each year so far very much exceeded the estimate, Sir Jeremy has found the gap not always filled, even to the extent of one-third, from that source. It is because of such factors that a steady increase takes place in the volume of paper currency. This increase is, as shown already, both in regard to note circulation, coins as well as deposits. These deposits, however, show no great activity as shown by the volume of clearing house statistics.*

Corresponding to this increase in the medium of exchange there is not, however, any equivalent increase

* Table of clearing House Returns. Total clearing in lakhs Rs.

1939-40	..	2307.77	1941-42	..	2699.68
1940-41	..	2136.36	1942-43	..	2458.74
Week ending February, 5, 1943			..	71.49	
"	"	"	12, 1943	..	60.98
"	"	"	19, 1943	..	65.72
"	"	"	26, 1943	..	65.76

cp. against these, the increase in demand liabilities of the scheduled banks in India.

1939-40	..	139.57
1940-41	..	163.86
1941-42	..	202.02
February, 26, 1943	..	363.86

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in production; nor even in the volume of transactions to be effected by this increased media. It has been estimated that, notwithstanding the drive for more production of war material in India, and the campaign to grow more food, the aggregate increase in production, in agriculture as well as Industry, is not more than 20 per cent. Authoritative figures are, of course, unavailable in this regard, later than 1940.* Even granting this increase of 20 per cent in production, the increase in circulation, according to the figures on April 30, 1943, is over 275 per cent as compared to September, 1939. The consumer has an excess of purchasing power, which is not apparently withdrawn from circulation by taxation or by borrowing, so as to prevent it exerting its influence upon the price level. That level is consequently rising rapidly, nearly in the same proportion as the increase in the circulation.

Under the Reserve Bank of India Act, the note issue and management of currency notes in this country has been entrusted to that Institution on certain conditions. Notes are to be issued against gold or sterling securities, which must not fall below 50 per cent., and commercial paper, silver, or Rupees Securities of the Government of India, to make up the balance. The assumption that Gold and Sterling Securities are synonymous for all practical purposes is, of course, as misleading as it is unfounded. The gold in the currency reserve of this country, representing 44.41 crores, is, it is true, valued at the old price of a little over Rs. 21 per tola, which, at the present prevailing rate, may be very nearly

* 'The Falling Rupee' by Prof. C. N. Vakil.

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equivalent to Rs. 200 crores.

On the other hand the sterling has depreciated very, very substantially in gold value, probably to one-third or less the 1931 value. That depreciation is concealed because of the working agreement with the United States, whereby the Dollar-Sterling Exchange is maintained at a fixed level. If, however, the control were removed, and the pound was left free under present conditions to find its own exchange value in the market, it is very likely that its value, even in terms of the depreciated dollar, would be not half of what it is to-day. The proportion, therefore, in the currency reserve of gold and sterling securities, said to be over 75% according to the latest available Reserve Bank Statement of April 30, 1943, — but of which gold is nominally less than one fourteenth,—is deceptive and misleading in the highest degree.

The increasing volume of sterling securities has accumulated into the currency reserve, as well as in the shape of cash balances with the Reserve Bank in London, mainly because Government issued *ad hoc* Securities, or authorised the Reserve Bank Act to accept Sterling Securities in exchange for the increasing sterling payable by the British Government on account of the so-called "recoverable expenditure," initially defrayed on their account by the Government of India.

With regard to the silver-rupee section of the reserve, the Law had also provided that the same shall not exceed 25%, or 50 crores, as between silver or rupee coin, and Government of India securities. But by an

	Food and Tobacco.	Raw Materials	Mnfd. Articles.	Chief Articles of Export.	Gen. ral.	Calcutta (Base July 1914=100) (General)	Bombay (Base July 1914—100) (General)
1939							
August. ...	100.3	100.2	100.0	100.6	100.3	100	103
September ...	110.7	108.6	116.5	116.1	112.9	114	120
October ...	112.7	109.6	121.7	115.7	114.9	118	121
November ..	123.7	119.2	138.9	136.4	130.5	131	133
December ..	127.1	129.3	145.1	147.9	138.3	137	135
1940							
January ...	122.1	125.9	140.8	139.8	133.2	130	128
February ...	119.2	125.4	135.6	136.0	129.6	126	124
March ...	117.9	125.4	133.0	131.5	127.5	121	119
April ...	112.7	122.8	131.5	128.2	125.0	121	121
May ...	109.6	123.4	127.3	122.4	120.8	117	118
June ...	103.5	112.2	117.1	107.3	110.3	114	114
July ...	106.5	118.4	113.5	110.8	112.1	114	115
August ...	103.2	118.9	109.3	106.3	108.4	115	112
September ...	107.6	116.9	111.4	109.7	111.1	119	113
October ...	109.6	120.2	112.9	111.0	112.1	121	115
November ...	109.1	125.6	118.9	115.9	115.7	122	118
December ...	107.8	124.0	119.8	114.2	114.4	120	118
1941							
January ...	107.4	126.3	121.6	114.0	114.8	121	117
February ...	103.6	121.1	121.5	107.9	111.1	119	116
March ...	108.1	125.9	131.7	116.7	118.8	123	120
April ...	103.5	128.6	131.5	113.2	116.4	127	122
May ...	104.6	130.9	139.7	121.4	121.5	130	123

June ..	114.7	139.0	146.7	132.7	130.2	137	127
July ..	127.0	146.2	157.3	145.1	140.9	150	140
August ...	128.6	147.2	161.2	148.0	142.5	151	144
September ..	125.8	145.8	167.3	145.2	142.2	149	145
October ...	126.6	150.5	163.0	145.0	142.1	151	152
November ..	128.6	156.1	165.0	148.9	146.5	157	162
December ...	127.1	150.0	153.8	139.0	140.8	154	180
1942							
January ...	130.6	158.4	161.4	143.0	145.0	155	184
February ...	133.7	157.9	162.3	142.4	145.1	153	194
March ...	132.9	161.9	165.2	139.7	145.6	153	197
April ...	138.5	162.4	157.6	138.9	145.9	157	196
May ...	144.9	160.1	162.6	141.3	149.9	169	203
June ...	160.2	161.4	167.4	151.5	158.6	182	222
July ...	155.5	163.5	175.6	153.3	161.2	182	225
August ...	160.2	161.8	174.6	152.3	161.1	192	228
September ...	164.1	164.0	182.3	156.7	167.3	198	229
October ...	169.9	166.3	194.4	165.9	175.0	209	233
November ...	173.6	171.0	220.0	170.3	182.7	227	249
December ...	181.1	172.0	222.2	171.8	186.0	238	...
1943							
January ...	201.5	171.5	225.8	165.5	195.6	250	...
February ...	...	...	...	...	...	253	...
March ...	...	...	...	...	...	272	...

These figures are taken from the Explanatory Memorandum to the Budget for 1943, p. 34, Part II, Statement I. The Index number for February and March, 1943, is added from the Statistical Summary of the Reserve Bank of India for March, 1943, Table X p. 6.

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Ordinance of February, 1941, the proviso to sub section (3) of section 33 of the Reserve Bank Act, which limited the rupee securities that could be held in the currency reserve to 25% of the total assets, or Rs. 50 crores, whichever was greater, was dispensed with. The volume of Rupee Securities also increased as shown in the table on page 50-51; but the bulk of them is formed of the Treasury Bills of the Government of India, which represent no real or substantial value. The continued increase in their volume also operates to accentuate inflation.

It is not indeed absolutely correct to say that the sterling or rupee Securities are or can be treated as wholly worthless. But the true value attachable to these Securities depends upon the final success in the War, which seems now more probable than was the case 18 months ago. Reinforcement and maintenance of British credit by some kind of International Organisation for the support of International exchange, also appear more promising now. I shall have to say a few words later on, in regard to the efforts now being made for setting up an International Pool to stabilise world currencies. For the moment, it is sufficient to add that, from every symptom in the present organisation and working of the Indian currency system, there is every reason to take alarm.

Had the Government of India been a National Government, possessing the confidence of the people, and intent upon securing and safeguarding the interests of this country, it naturally could, no doubt, have taken effective steps against the consequences of this develop-

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ment. Even if they were not able to avoid inflation in some measure, — as is very likely, once they were involved in the war, and committed to this method of purchases on British account in India, — they could still have taken precautions, or adopted safeguards, as have been done both in England and America quite effectively. The Government of these countries are national, and possess the confidence of their people. They are, therefore, able to take up almost all the surplus income of the community by steadily increasing taxation, and large-scale borrowing, practically forced. Very little balance of the national income is thus left for private consumption. A system of rigid price control, coupled with strict rationing of almost every commodity, goes a long way to maintain a certain stability in the price-level, and prevent undue inflation in those countries.

At the risk of being wearisome by repetition, I must add that in India, however, the Government, unable to claim the entire confidence of the people they rule, naturally cannot take such measures, and give effect to them with the same intensity that the Governments of America or Britain can. A National Government of India would have adopted rigid, effective control over production and consumption to the maximum practicable degree. But, at the same time, they would have seen to it that such inflation as was inevitable was backed by substantial values, either in terms of gold or silver; or, failing them, securities of such other countries as had obviously great economic strength, and were more certain of maintaining the exchange value of their currencies than Britain might be able to do. If the British

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Government was unable to spare gold or dollar exchange for the heavy purchases they made in this country, they would have been required, by a National Indian Government, to float loans in this country, demanding such guarantees for repayment, both of principal and interest, as may be deemed satisfactory. Given the united effort of all Allies for winning the war, it is by no means too much to expect that the Indian national government would have succeeded in inducing the British or American Authorities, to provide the necessary cover of a substantial character for such inflation as was inevitable. The United States may have been willing to release Gold, of which it has a glut*, or silver, of which it has already promised to release some quantities for the purpose of the Allies. A National Government would have given ample and effective guarantees to see that the gold or silver, thus released by the United States, did not affect international exchange to the prejudice of the Allies; and the guarantees would have been as much in the interests of India as of the Allies.

The aid, moreover, that the Lease and Lend system, described below, is designed to provide, may have taken a form, in India, of substantial values in exchange for the British purchases. India could thereby have obtained from America, if not gold, silver, or Dollar Exchange or Securities, at least machinery, machine tools, plant and equipment of an equivalent amount to expedite her own industrialisation. Even if such material cannot be obtained from America, under the present regulated

* cp. Table, 'ante' p. 35.

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system of production, unless it is intended for intensifying war industries only, industries now serving war needs may, nevertheless, prove of great service, when the war ends, for the normal industrialisation of this country. With the additional wealth created in India by the impetus of the war locked up in Sterling Securities, as it has been today, there can be no great hope of this desideratum being achieved.

If all these measures had not succeeded, India may yet have taken the precaution of exchanging all these balances in the form of Dollar Securities, or Dollar exchange; so that, after the war, whatever might happen to the international exchange value of sterling, adequate safeguard might be available to the Indian currency unit.

It has been alleged by influential businessmen, writing in the press, that there is no cause for alarm because of the mounting curve of note circulation, and the rising wave of Sterling Securities. The problem, according to such writers, is rather a problem of scarcity, than of surplus circulation. But the country is said, on all sides, to have had an increase in production, rather than a decrease. The exact volume of that increase, whether in agriculture or in industry, is not known; but the fact is not seriously disputed. There is an increase in exports, in the shape of purchases made on behalf of British and American forces, and consumed here. But how can that be described as scarcity? The increased demand for British and American troops cannot justify the disproportionate increase in the volume of currency as a whole, and cannot explain the increase in price level, which has actually happened.

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In marked contrast with this line of thinking is the statement of a number of Indian economists,* recently published, which makes no doubt about the fact of inflation, or even about its causation. Indian economists are normally a tame species, who ordinarily perform faithfully all the parlour tricks the masters of the country have taught them. In this instance, however, forsaking the cloistered calm of their studies, they have deemed it necessary to cast a glance at the hard realities around them; and devote a thought to suggest remedies, which may save the situation. I offer no apology for giving the following extracts from that interesting, if somewhat unusual, document.

"The rapid rise in the general price level during the past two years, and the enormous expansion of currency in India, are, we feel, casually related. The unprecedented expansion of currency, since the war began, is due chiefly to the system adopted for financing the large British and other allied purchases in India, under which the Government of India accepts payment in sterling and provides rupees in exchange. For all these purchases India acquires, under present arrangements, sterling assets in London; and against these occurs an expansion of currency in India."

"The Government seems to act as if it is enough for it to take care of its own budget deficit, while meeting the needs of the British Government by printing more notes. This is a grave misreading

* cp. 'Bombay Chronicle, 11th March, 1943.

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of the whole situation, and has resulted in an ever increasing expansion of currency unrelated to the needs of internal production and trade. As a result, the inflationary spiral is already at work in India."

"The net inflationary gap in India's finances, counting in the finance made on behalf of His Majesty's Government, is thus being wholly filled by the creation of more currency. The inflation in India is, therefore, a deficit induced, fiat-money inflation. It is the most disastrous type of inflation".

"The repatriation of India's sterling obligations does not act as an anti-inflationary factor except to the extent to which the rupee counterparts are taken up by the public; but this has so far been only small in proportion."

"Inflation is the most inequitable way of distributing the war burden, and usually involves large transfers of wealth from the poorer and the middle classes to the richer classes. It is also undesirable because it increases the cost of war, and impairs the war effort by hindering production and distribution. Its consequences to economise society are immediately felt; it, however, also holds the threat of bringing about, later, political consequences of an even graver nature."

"We earnestly feel that immediate and drastic measures to check inflation are called for. In this connection we urge on the Government of India the primary necessity of closing the 'gap' by increased taxation and borrowing. Taxation, in our

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opinion, should be raised to the highest practicable pitch, adjusted to shoulders that can best bear it. We suggest a much steeper progression in income-tax rates, the laying of a maximum limit to individual consumption income, and absorption of all profits above limit either to revenue, or to be impounded into special loan contributions. To increase the volume of borrowings to the required level, it is necessary to institute a comprehensive scheme of compulsory savings, as well as a rigid control of all investment."

"In order to make this price control measure effective, a policy of centralised supervision and direction of productive effort will be necessary. This will in its turn involve equally strict regulation of transport and distributive machinery on a national scale. A rationing of the essential necessities of life should be undertaken to as large an extent as possible. An effective control of prices will involve a wage stop; but this will mean no hardship as long as the price rise is stayed. An equally strict profit stop is indicated as a corollary of this policy as well as independently on account of financial considerations."

"In our opinion, only such a comprehensive view of economic policy is capable of averting the grave economic, political and social consequences of the continuance of the present process of inflation. We would also emphasize that the total liabilities undertaken by the Government of India, whether on their account, or on account of the British and

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Allied Governments, should not exceed the resources that they find possible to raise in pursuance of the policy outlined by us."

GOVERNMENT ATTITUDE.

It is interesting to note, in passing, the attitude of the Indian Government authorities on this subject. Throughout his long Budget Speech last February, the Finance Minister never explicitly denied the fact of there being an Inflation in India. But, as in duty bound, he takes no alarm at the growth of Sterling balances, and securities in the Currency Reserve of India; but points out elaborately certain elementary ideas, bearing upon the situation.

It is nothing original for the Finance Minister to tell us that, in a war of these dimensions, the usual methods of settling international balances are not accessible. It is obvious that, if the credit balance in favour of India grows, the contra item now-a-days cannot be raised by importing more goods. But that does not necessarily mean that India must receive payment for her growing credit balance in one form only,—sterling I. O. U.'s To him.

"Since disbursement must be made in Indian currency, the question of how war expenditure is allotted is irrelevant so far as the inflation aspect of the problem is concerned".*

The Finance Minister seems conveniently to overlook that, in the last analysis, it was the apprehension of

* cp. Para 51, Budget Speech, 27th February, 1943.

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uncontrollable inflation, which has brought about the whole vast structure of the Lease-Lend and Reciprocal Aid.

It is cold comfort, indeed, to say that, assuming the war will end in the victory of the United Nations, when both the Indian and the British Government will be in a position to adopt and pursue sound financial policies.

"There is not the remotest risk of inflation of the nature and on the scale which occurred in some of the countries which suffered utter defeat in the last War".*

As if inflation could only be called inflation when the rupee becomes, in commodity value, one thousandth of what it was before the war, as the mark had become between 1920-1924! Prices have already risen over 150 per cent the pre-war level.** How, then, can one avoid taking pessimistic view of the situation, as the Finance Minister advises us.***

* cp. Para 53, Budget Speech, February, 1943.

** p. 104-5; also p. 50-53.

*** It may be worth while quoting, in this connection, a Question and Answer in the Indian Legislative Assembly, on March 9, 1943. A member asked: "If, God forbid, you lose the war, where would Indian currency be?"

The Finance Member agreed that this was a crucial question, and answered:—

"In that event India and the world will lose a great deal more than 300 or 400 crores of sterling balances that we are discussing to-day," and added, with deep conviction: "India has a stake in victory. The proper approach to this question is this: India has made certain contribution to the war effort of the United Nations. If these efforts result in victory, then India will have certain claims to make on the post-war world on the basis

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The Finance Member's final conclusion is that there is today in India not a pure credit inflation, but only a temporary increase in the volume of purchasing power, which reacts for the time being on a diminishing volume of consumable goods.* Not only is this distinction very thin; it is unsupported by the facts as the Reserve Bank statements show; and even his own observations in other parts of the Speech indicate.

DE-LINK THE RUPEE AND THE POUND.

It is indisputable that the control of Inflation is essentially a political rather than an economic matter. What is possible, therefore, for a national government commanding the complete confidence of the country, in such matters, cannot even be attempted by a foreign government, such as now holds India in its grip. The remedies suggested above are all designed to meet the difficulty of the moment; none of them removes it for ever. The one remedy, however, which, in my opinion, will for ever put an end to these periodical troubles of India would be to sever the fixed connection between the rupee and the pound sterling. The link must be for ever abolished; the ratio must be dispensed with. The rupee must be left, like the Pound before the War, to find its own level in international exchanges,—after the war is ended. Even if this remedy is not immediately feasible, it deserves serious consideration after the war.

It is quite likely that the present ratio, once dis-

of her contribution to victory. Nothing that India can do can put her claim on a higher level than that."

* cp. Para 53, Budget Speech, February, 1943.

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pensed with, the demand for rupee finance would be so great, while existing circumstances continue, that the sterling value of the rupee may soar like a rocket, at least for a while. The presence of pooling arrangements under Lease-Lend and Reciprocal Aid make this danger insignificant. The profound concern of the U. S. in the War and all that relates to it will provide a strong break water against the tide of rising rupee exchange value. And even if the Rupee sterling ratio rises in favour of the rupee, the rupee-dollar ratio need not experience the same fate.

If, besides, the authorities managing the Indian currency were actuated wholly by a concern for India's interests,—immediately, as well as in the long run,—they could arrange with the United States to release a part of their unwanted, superabundant gold; ear-mark it to the credit of India, even though kept in the United States while the War goes on; and let India issue such paper money, against this gold, as seems needed for the financing of the war demands. This opportunity might also be taken to convert the sterling securities, now in the Paper Currency Reserve, into Dollar securities, or deposits in American banks, which would be available, after the war, to make purchases for Indian industry. If gold, or even silver, is allowed thus to flow into India,—or even placed to the credit of this country on a sure foundation,—there is no need to fear the rupee would soar in Exchange value all round to such an extent as to damage permanently India's export trade. The damage,—if it at all occurs,—would be temporary. The Currency authority, if it knows its business, can easily keep

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the exchange value of the rupee at levels by no means unfavourable to the trade or industry of this country. And, meanwhile, the banking habit could be so popularised in the country, as to make the regulation of the currency a relatively simple affair.

The international value of local currencies will, after this war, no longer remain the unilateral concern of each country by itself. Efforts are even now being made in that direction; and a brief review of those efforts,—so far, at least, as the cabled summaries would permit an understanding of the proposal,—will suffice to show how India, also, could have her due place in such an organisation. But she must not be treated as merely the tail of Britain. When such international co-operation becomes an established fact, apprehensions regarding the adverse effects of a high exchange upon the trade and industry of the country will have no room.

AN INTERNATIONAL CURRENCY.

This experience is not confined to India. After the last war almost every European country experienced it to a larger and smaller extent. It is in fact to guard against a repetition of that disastrous experience that precautions are being taken, even in the midst of a War—e.g., by the United States by means of a specific legislation against inflation—to guard against a repetition.

A Government of India press note, recently issued, describes the British Government plan for an international clearing house, which served as a basis for discussions in London on post-war currency arrangements, as a preliminary contribution to the solution of what threatens to

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be one of the toughest of post-war problems. The plan is a British official contribution, to which, however, His Majesty's Government are in no way committed, either in principle, or in detail. They have put it forward only to facilitate comment, criticism, and constructive suggestion.

PRINCIPAL PURPOSES.

The main objectives of the plan are, of course, to be found in the bitter experience of Western countries regarding the currency chaos which followed the last World War. The efforts now being made to avoid a repetition of that disastrous experience aim at:—

(i) providing a generally acceptable means of payment between nations;

(ii) ensuring that any alterations, which take place in the exchange values of international currencies, are made as the result of an orderly international procedure, and not by unilateral action.

(iii) relieving excessive strain on any country, suffering from temporary difficulties in meeting its international obligations for payments abroad.

(iv) subjecting it, at the same time, to a gradual pressure towards restoring equilibrium.

POST-WAR INTERNATIONAL EQUILIBRIUM

These objectives are unquestionable, if we desire the post-war world to be functioning peacefully on an even keel. Notwithstanding the lessons of the last war, every belligerent country has been suffering, even during

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this war, from a varying degree of its local currency depreciation, or inflation. When normal, peace-time international trade is restored, the situation in all these countries would create a state of currency anarchy, unless adequate and effective steps are taken in advance to dam that flood. The international conference which met in London early in March last was reported to have considered this question from all angles; and the solution of the problem, which everybody envisages, has been crystallised in two somewhat divergent plans,—the British, and the American.

The main objectives are, undoubtedly, common to both; but the means adopted to attain it are inevitably dictated,—perhaps unconsciously—by the local circumstances of each sponsoring country. Since even countries in the position of Britain or America are unable to take a wholly detached view, it is but natural that countries like ours might feel seriously apprehensive, the more so as our view-point is seldom heard or attended to. As unilateral action by one country would not suffice to meet this danger effectively, concerted steps must needs be devised to guard against such a danger recurring.

PRE-WAR SETTLEMENT OF INTERNATIONAL BALANCE

Before the war, the principal medium for settling international balance of payments was an import or export of precious metals. Gold had, throughout the 19th century, been assumed to be an ideal unit of international exchanges. Silver had served the same turn either by itself, or along with gold, in the centuries that had gone before, and was doing so even in the present century in

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countries like India or China. Silver, however, was increasingly thrown out of use, because of its sustained depreciation in relation to gold, ever since the discoveries of new gold mines in the middle of the 19th century. Gold, on the other hand, was becoming difficult to obtain, notwithstanding the continued minings in Africa, Australia, America, and, of late, in Russia.

DECLINE AND FALL OF GOLD

The essence of the Gold Standard, as it had worked in the 19th century, under the leadership of the London Money Market, was freedom to buy and sell,—import and export,—gold as between all trading countries, at a fixed price, to settle the balance of payments. It was found impossible, however, to maintain that fixity of price, and, still more, the freedom of export and import, of gold, in the years immediately following the last war. Britain, whose currency had previously been regarded almost as synonymous with gold, had to suspend gold standard immediately the struggle started. She made a heroic effort to restore a kind of gold standard about 1925. But even that could not work satisfactorily for long; and had to be abandoned finally in 1931. Since then the pound sterling has no connection with gold; and is left to find its international exchange value by itself. Germany and France also failed to maintain a fixed ratio of their local currency with gold; and when the United States joined the list in 1933, the debacle of gold was complete.

NEMESIS OF ECONOMIC NATIONALISM

One of the factors contributing to this denouement

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was the intensive economic nationalism of the twenties and the thirties, which reacted particularly on international trade. The international movements of capital, due mainly to the Reparation demands against the so-called debtor countries, were accentuated by the desire to revive German trade and industry, so as to facilitate the liquidations of the Reparations on a very much scaled down level. But these capital movements were not set off by converse movement of goods or services because of the existence of high tariff walls by America, the universal creditor.

The practical repudiation of their war debts by Britain, France, and their weaker allies to America, as well as 'inter se', led very soon to a financial crisis in the United States, culminating in a large number of bank failures in 1933, and intensity of depression, that forced that country also to drop the gold standard for the time being. Legislation was soon enacted fixing the gold value of the dollar at a 40 per cent. depreciation, and liable to a further margin of another 10 per cent. by presidential decree, if the course of world trade and the balance of international payments so necessitated.

Meanwhile, however, America had acquired and was, even after this legislation, acquiring very large stocks of gold from European and Asiatic countries, thanks mainly to her strong industrial position, and her steady refusal to lower if not abolish her tariff walls. Though America's total exports are supposed to be less than a tenth of her total production, the unwillingness of that country to receive payments in kind from other countries placed a very high premium on unstable inter-

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national exchange.

This experience of the last 25 years, accentuated as it has been in the course of this war, has led to a growing desire everywhere to bring about some kind of an abiding stability in international exchanges. During the present war, the large-scale purchases by Britain in America before March 11, 1941, had still further depleted the British gold reserves, and made her extremely vulnerable in post-war trade. The mutual assistance pacts—Lease-Lend—became necessary for the conduct of the war over such a vast area; and since then these transactions have been increasingly effected without any dislocation of the international exchange value of local currencies. A rigid control had been exercised, in fact, ever since 1938 under the Tripartite Agreement between France, Britain, and America, on the mutual ratio of their several currencies. During the war the arrangement has been continued; and, with the advent of the Lease-Lend system, the necessity of any cash payments is largely dispensed with.

But that arrangement is only for the duration of the War, and applies only to the United Nations; and that, too, for purposes of defence articles mainly. At the present moment this system is scheduled to expire at the end of June, 1944. And even if it is continued, as long as the War lasts, it will not be maintained after the War.

INDIA IN WORLD CURRENCY UNION

After the War, however, the world will need the help of some such system even more than it may need now. The excuse of the War may persuade many people

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to acquiesce in arrangements which in normal times they would regard as anathema.

To continue the benefit of this arrangement on a more worldwide basis, in which all the Allies, as well as the enemy nations may participate after the war, several proposals have been made to organise a World Currency Union, with a view to maintain fixed exchanges. Since the beginning of March last, cabled reports of a conference held in London by the representatives of all the United Nations have indicated definite attempts at some co-operative solution of one of the most baffling problems of post-war world economy. We do not know if India was represented at this gathering, and, if so, by whom, or what line of policy was advocated to safeguard the interests of this country.

The conference, however, has not, according to reports, been able altogether to obviate the existing economic differences between the leading countries, like America and Britain, Russia and China, British Dominions and other European or American countries,—not to mention Asiatic countries. The resolutions of the conference are not yet available. Even the specific schemes, said to have been elaborated in pursuance of those resolutions, both in England and America, are not yet accessible in India. Such cabled summaries, however, as have been forwarded, indicate two different and somewhat divergent lines of solution, developed, one in England and the other in America, which will be briefly considered in the following pages:

BRITISH PLAN

The English plan, drawn up by Lord Keynes, the

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veteran currency expert of that country, proposes to set up an international currency, called 'BANCOR' (Bank Gold). His scheme centres round the proposal to set up an International Currency Union, or Clearing House, which would,

(1) help to provide a generally acceptable means of payment between nations,

(2) ensure that any alterations in the existing values of national currencies will be made following a prescribed international procedure, and not by unilateral action;

(3) relieve excessive but temporary strain on a country suffering from passing difficulties in meeting her international obligations, subjecting, at the same time, such a country to additional pressure, towards restoring its own international balance of payments.

These objectives are all subsidiary to the principal purpose of promoting a steady expansion in international trade, and consequent improvement in the standard of life of the participating countries. "BANCOR" is an international currency, only in the sense that it is a unit of measurement for exchange values and unit of accounting, like the pre-1914 gold franc, in the books of the Union. It need not, and probably will not, be an objective unit itself.

International business would, therefore, be necessarily conducted in terms of existing currencies. There is this difference, however, that each of these existing currencies will have a fixed ratio in 'BANCOR'. The

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'BANCOR' will be available by borrowing from the central Union to any Government, which requires it to maintain the ratio of its local currency in terms of other currencies. By this means all the necessary foreign exchange will be provided at a fixed rate, which would otherwise not be possible. Exchange fluctuations will thus be eliminated.

The 'BANCOR' unit will be defined, initially, in terms of a given weight of gold. This may be altered, if necessary in the light of subsequent events, by mutual agreement. Every country would, under the scheme, be entitled to obtain this international currency, or 'BANCOR' from the Union, in exchange for gold. But unless the Union has the power to create bancor, it will be unable to function. This power is part of sovereign authority, which would need to be carefully defined. There will be no converse right to obtain gold in exchange for 'BANCOR', which seems to make the arrangement one-sided. The new currency therefore, cannot be called gold standard renovated.

Every country, moreover, will be obliged not to attempt to accumulate gold by offering a higher price than that which has been agreed to originally in terms of its local currency. But what about countries which themselves produce gold; and which, demonetizing gold for their own internal purposes, are in a position to acquire or accumulate a disproportionate amount of gold which they can exchange for Bancor? Subject to this, every country will be free to make such or as little use of its gold for domestic or international purposes as it thinks fit. The possibility of a disproportionate accumul-

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ation of gold or Bancor in some countries exposes the scheme to the danger of being stultified, unless a provision is made for a redistribution of the world's monetary gold stocks.

This Plan will be managed by a Board, appointed by the Governments of the participating States. It is not stated in what proportion each State would be entitled to nominate to the Board. In view of the vital importance of the functions proposed to be entrusted to the Board, it is of the utmost importance to know how will its membership be recruited. Countries like India may feel legitimate apprehensions about their place on the Board, unless the principles on which such appointments are to be made, and the respective proportions of membership assigned to the participants, are defined in advance.

The chief function of the Board will be to fix the value of 'BANCOR' in terms of each local currency, and the quota of each participating State in the management of the Union, having the right to enjoy its credit facilities. It is not stated as to how the amount of credit allowed to each country will be regulated. Will it be in proportion to each country's foreign trade, or national income? The two are not always proportionate. Countries which are not yet developed enough to have a high level of foreign trade may suffer, notwithstanding their potentiality, which, to be developed fully, will need capital, or Bancor credit facilities in generous measure. Here, too, India, from her past experience may well feel nervous as to how these quotas will be determined; and in what form will each quota have to be provided. Will

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it have to be in gold only? Or will the sterling securities India holds be accepted at a fixed rate of conversion of sterling into gold?

The essence of these functions, if the tabled summary is correctly understood, will necessitate a delegation of sovereign authority to the Board, which there is no indication Britain will agree to. Without a degree of such sovereign power, the Board cannot attain the objectives for which it is set up.

According to the author of the Plan "The Clearing Union might become the pivot of the future economic government of the world. The arrangement proposed can be described as a measure of "financial disarmament." The analogy is more ominous than accurate. For, as in the old squabbles about disarmament, unless all agree simultaneously to disarm, and appoint some authority to see that disarmament does take place, it will only lead to a new war.

If the plan is to work at all, all the United as well as enemy Nations will have to become members of this International Clearing House, or Currency Union. Special conditions would, very likely, have to be imposed upon the present day enemy countries, so as to assure the continued functioning of the system, and guard against its being sabotaged by the unilateral action of any country.

In essence, the British scheme postulates the separate, independent, unqualified, sovereignty of each participant, which will not be conducive to its smooth and successful working. There is, apparently, nothing to

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compel any community to join the Union, and much less to prevent its withdrawal, even after joining. This will put a needless and undesirable premium on narrow national self-seeking.

The scheme, moreover, appears designed primarily for the benefit of countries, like England, which, unable to produce all that they consume themselves, and *vice versa*, depend upon foreign trade for their very existence. Countries, on the other hand, which aim at and can achieve national self-sufficiency, like Russia, the U.S., China, or India, might find its working a needless twist on their own productive organisation. Its basic and dominating notion is 'production for exchange,' and 'not for use,' as any national system of world economy would require. Basing itself on that conception, trade, the off-spring of production for exchange, must needs concentrate on differences in comparative money costs, as the sole motive force of international exchanges, and not on the more essential foundation of trade in regional surpluses or specialities. These ideas, if allowed to govern the new currency organisation, will not augur happily for the new world order.

THE AMERICAN PLAN.

The American plan for the same objectives offers several contrasts. Both are, of course, aimed at stabilisation of world currencies and international exchanges after the war; and both aim at making gold the ultimate basis for the purpose. But there are many and important differences, of principle as well as detail, between them, which it would be instructive to note and ponder over.

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The American proposals, as cabled reports show, also envisage the institution of new world currency,— the 'unitas,' each unitas weighing 137.14 grains of fine gold, equal to 10 dollars, the new world unit being freely convertible into gold. Its gold value will be maintained by:

(a) The establishment of an international Stabilisation Fund for all United Nations, or Associated countries, which contribute to the fund. This fund is intended to amount to at least 5,000 million dollars, which will be made up of gold, local currencies, and securities of the participating Governments. The contribution from each participating Government to this Fund will be fixed on the basis of its gold holdings, trade balances, and the national income of each such country.

The American plan lays an emphasis on gold, which is in marked contrast with the British soft pedalling of the gold *motif*. The U.S. command over 4/5th of the world's stock of monetary gold; and so their suggestion for making gold the key-stone is equally intelligible. For countries, however, not themselves producing gold, or in possession of any respectable quantity of that commodity; and whose national economy has been badly hit by the war, allowing them little hope to build up a respectable gold reserve of their own; this would mean a sentence of unmerited and unnecessary exile, which will not bespeak for the sense of fair dealing among the richer nations of the world.

POWERS AND FUNCTIONS OF THE FUND

The International Stabilisation Fund will, according

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to the American scheme, have resources and powers sufficient to achieve monetary stability, and facilitate the restoration and balanced growth of International Trade after the war. It is obviously important that this should be done while the war is still on, if we are to avoid the "currency chaos" which followed the last war.

To start with, each country will have to contribute 50 per cent at least of its quota to make up the Fund. This quota will be made up of $12\frac{1}{2}$ per cent in gold, $12\frac{1}{2}$ per cent in local currency, and 25 per cent in interest-bearing Government securities. It is not clear if these interest-bearing Government securities are to be the securities of the depositing Government, or some other Government. Would the sterling securities held by the Government of India be admissible? A country which has gold reserves of less than 300 million dollars may provide at the start only $7\frac{1}{2}$ per cent in gold; and countries which have less than 100 million dollars of gold may provide 5 per cent. There are today not more than half-a-dozen countries in the world who can boast of a gold reserve of more than 300 million dollars. The gold section of the Issue Department of the Reserve Bank of India amounts to Rs. 44.4 crores, or about 150 million dollars. Taking at its present price, this gold may be valued at about 600 million dollars, though, if that amount were dumped on the market, it is doubtful if the price would remain unaffected.

On the other hand Member countries may provide gold in place of the local currency and securities, so that "the entire quota of such a country may consist of gold only." This, it need hardly be pointed out, is obviously

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in favour of the United States, which have accumulated 85 per cent of the world's monetary gold; and which can, therefore, at once deposit the whole of their quota in gold. But it places a needless and unmerited premium on gold, which, from being a commodity of commerce, is likely by such means to be made into a god of the exchange market.

The Fund will be empowered to buy and sell each member country's currency. But the acquisition of any country's currency by the Fund must not exceed the quota of that country during the first year, 150 per cent of the quota during the second year, and 200 per cent thereafter, except for covering balances for international payments. Trading in this manner in member countries' currencies by the Fund may have advantages. But, unless specific limits are imposed on the amount that can be sold, there is a serious risk the Fund management might abuse its powers to the prejudice of the country concerned. And we have yet to abolish all grounds for such apprehension.

If the Fund's holding of any country's currency is in excess of the quota, the member country concerned may be called upon to deposit additional securities for making up this local currency's 'Unitas' value. A charge of one per cent in gold is made on any excess of local currency over the quota. On the other hand a member country may request the Fund to resell the surplus of its currency against gold, or permissible or eligible, security.

The main, if not the sole, object of the International Stabilisation Fund, according to the cabled summary is

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to facilitate International transfers. Starting today, special agencies should be created to facilitate.

First, financing rehabilitation and relief programmes in each country; and

Secondly, promoting stability of prices of primary International commodities.

There is no mention in the British plan, of any such objective. The American plan is, consequently, more commendable. But will rehabilitation include the development of resources, as in India, which have not yet been developed? Otherwise the plan would benefit only the war-worn European countries; and perhaps reinforce their economic domination of the rest of the world, bar the U.S. and U.S.S.R.

DIFFERENCES BETWEEN THE TWO PLANS.

As remarked already, there are several important differences between these two schemes. The U. S. Plan is not definitely fixed, merely because of the institution of a new monetary unit called 'Unitas', either to the Dollar or to the Gold Standard. So long as the U. S. Treasury remains willing to buy all gold offerings at a fixed price, the 'BANCOR', or any other gold unit, will have a fixed dollar equivalent.

The inclusion of gold in the stabilisation Fund, as proposed in the U. S. Plan, gives the United States a much bigger vote in the management of the Fund. If the United States quota exceeded 20 per cent. and approached the maximum of 25 per cent., America, under the four-fifths majority rule, would have an absolute

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veto on any changes. To the weaker countries, this may be a red signal. But to whosoever joins without any mental reservation, there need be no great ground for apprehension in this.

The question of the Fund's constitution seems to have aroused more serious criticism in England, because the U. S. Plan involves a much greater surrender of national sovereignty. The British Plan, on the other hand, proposes only submission to the check of international consultation; it does not require positive approval or disapproval, let alone interference with the specific right to regulate one's own exchanges. Under the U. S. Plan member countries will have to surrender all powers to fix and change their exchange rates. That seems, however, to be the only way to restore a measure of sanity, stability, and honesty in the world exchanges.

The American Plan, moreover, puts a greater emphasis on the removal of exchange control, so as to restore foreign exchange markets functioning normally. Members would be allowed to decide when their restrictions on current account transactions could be abandoned. But, even as regards this, the Fund would be empowered to make representation, if not recommendations, which will necessarily carry very great weight. An additional restriction could only be imposed with the Fund's approval. While admitting that any scheme of world currency union must guard against unilateral modification of exchange rates, complete abandonment of local sovereignty or national freedom of action in these matters may be objected to, unless the Fund is, in fact as well as in name, a truly International Organisation.

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While the British Plan envisages multilateral clearing between the member countries, the American Plan seems based upon an International Bank. The quotas required from each member country resemble very closely share capital. By permitting or encouraging the continuance of foreign exchange markets in various centres, where the Fund operates, the U. S. Fund would be no sort of a clearing house, except in the sense that every foreign exchange market is a clearing house. What the world needs, however, after the recent experience of currency chaos, is not a clearing house so much as a positive control machinery; and that the American plan provides in a goodly measure. A Central Clearing House, which the British scheme envisages, is apt to stress unduly the financial importance of a centre, as London was before 1914; but which London now can no longer be. The existence of a Central Clearing House, located in a given country, might enable that country to dislocate the entire world exchanges, as London did in 1931, to suit local convenience. This will not help the programme of post-war reconstruction.

Under the American Plan a surplus country would be obliged to take the currency of its specific debtor; and would not receive a claim under the Fund's general pool. This would prevent deliberate over-exporting to any obviously weak buyer, and discourage trade by emphasising exchange risks. On the other hand, exchange risks would be reduced by insisting upon maintaining the gold value by the Fund portfolio, in the event of depreciation or appreciation of any member currency. By a surplus country is meant one who has,

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on balance, to receive payments from others, and not to make them.

Perhaps the sole serious difference between the rival schemes is the absence of any provision, in the U. S. Plan, for inducing persistent surplus countries to take payments in goods and services. That is why the American Plan does not even mention the influence of tariffs in obstructing trade, though that is fundamental to the success of any international monetary system. The American tariff will, according to the British critics, be the crux of the post-war equilibrium. Countries, however, which desire their local markets to be reserved primarily for their own products would naturally feel sympathetic towards the American suggestion. It may be questioned if Britain herself would, after this war, be such an ardent advocate of free trade as she was before 1900.

The only substitute for moderation in the American tariff policy would be big United States lending abroad. The interwar period has proved that such dependence on incessant export of U. S. capital is an unreliable basis for stable world trade. The post-war world cannot function, if gold remains the sole import freely and really acceptable to the United States.

Even this difference, however, may prove more formal than real, since the American covering letter specifically confines discussion to machinery, leaving fundamentals for other Agencies.

Though no country is yet committed officially to any plan, it is reasonable to assume that each of the

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two leading Allies will support its own creation. The main objectives, and even the salient features of the administrative machinery designed, are common to both the schemes. But there are important differences of detail which may cause an almost unbridgeable gulf. It would be a hard pill for Britain to swallow, if the undermining of local sovereignty of each participating country, — which is the kernel of the American scheme, — is to be an indispensable feature of the new organisation. It is not known, moreover, what attitude Russia and China have adopted regarding either proposal. If they object to any important points, or refuse to accept either plan, the proposed new currency order will be still born.

THE POSITION OF INDIA.

For India, the danger is considerable in the British plan, if only because of its vagueness; and also because of the insistence on local sovereign authority of each participating country. In trade balance proper, India has been, from time immemorial, a creditor, or surplus, country. This surplus of payments due to her will be materially increased by the rapid disappearance of the sterling payments she has had, so far, annually to make to Britain on account of War Office charges, interest on sterling debt, pensions and leave allowances of British officers serving in India. Even if she adopts a policy of intensive industrialisation, and national self-sufficiency, the balance of payments will always remain in her favour. She has, therefore, very little to lose, particularly if the American plan is adopted without mental reservation, and worked without any ulterior design. It is assumed, of course, that post-war India will be a fully

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independent country, who will be represented on international organisations of this kind by her own people. And the latter, it is further assumed, will follow a line of policy which is most consonant with India's own interests.

In the American plan, however, is implicit a certain risk, which it is as well to mention in this place. India is a country of enormous resources, which, however, need yet to be developed. For that purpose, she will have to adopt a policy of intensive industrialisation, under a comprehensive, co-ordinated plan of national development. This will demand a considerable measure of fiscal protection to Indian industry, which may be construed as obstructing freedom of international exchange. This may be inevitable if individualist economy is maintained even after the war.

SOCIALISED ECONOMY INDISPENSABLE

For my part, however, I believe the days of individualist economy, motived by private profit, are numbered; and there is much in the American plan which supports this belief. Under socialised economy world co-operation in all such matters will wear a wholly new aspect. It will be as indispensable, as it will be universally advantageous.

The emphasis laid, in both plans, upon gold is undesirable, and retrograde. So far as India is concerned, however, being a creditor country, she has no need to take alarm. Her gold stock is depleted enormously since 1931 by the selfish, exploitive policy of British Imperialism. But, even so, there is no cause for alarm.

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As mentioned elsewhere, our known currency gold reserve is, at present prices, equal to permit our contribution in gold to be 20% if we so wished, and if the quota fixed upon us necessitated it. Any gold in private hands in India is much more considerable, in all probability. A national government of India, commanding the complete confidence of its people, may easily mobilise much of the private hoards; and so make an effective contribution to the stability of world exchanges.

In order, however, that this may be achieved, India must be free, and governed by a popular national government. Even if no demurrer is made to the American plan on the score of its requiring a sacrifice of national sovereignty, the national self-respect of this country demands that we should rank equally with other member countries, and have a corresponding voice in the governance of the Fund. If the leading nations among the allies harbour the illusion that India will, even after the War, willingly remain under the British Imperialist leading strings, and yet offer her full co-operation in such projects of post-war reconstruction, they would do so at grave risk to the success of their own proposals.

BREAK THE STERLING LINK.

As one obvious mark of India's real and complete emancipation, she will have to break the present unnatural link of the rupee with the pound sterling; and make her currency and credit systems entirely free from any outside influence or control. Then only would her position be natural her policy rational, her contribution to world rehabilitation substantial.

HOW INDIA PAYS FOR THE WAR BORROWING TO PAY FOR THIS WAR.

The next method of financing war expenditure is, as already pointed out, by raising loans. This borrowing is intended to take up the surplus wealth in the hands of the community with a view to devote it to warlike operations. Wars upto the 19th century were, however, on such a scale, that the methods of financing leaned very much towards protecting the propertied classes from the burdens, as much as possible. Even if taxation, applied on a scale nowadays quite common, could have easily met all the war costs of those days, they preferred borrowing to provide the bulk of the extra funds required. Since the beginning of World War I, however, taxation has at least tried to keep pace with borrowing, in countries like England or America, so that the burden to be passed on to the next generation would be proportionately much less. As all war expenditure is of an unproductive or even destructive character, it is but fair that as much of this burden should remain on the shoulders of the generation, responsible for bringing about the war, and which benefits or suffers from the war, as possible.

Borrowing by Government for war purposes has taken a variety of shapes, the most important of which are the Loans or Funded Debt, short term borrowing, — mainly in the form of Treasury Bills or Ways and Means Advances, — and special types of borrowing to tap particular classes of the community, which, ordinarily, would have neither a surplus of income to invest, nor, perhaps, an inclination in that direction. Defence Certificates, Saving Certificates, or Deferred Wages and

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Dividends, are the latest of the devices added to the machinery of public borrowing, and particularly cultivated in the West.

In this country, the extent of public borrowing is represented by the subjoined table, which records both Funded Debt or Loans, terminable as well as non-terminable, Unfunded Debt, Short Term borrowings, like Treasury Bills, Ways and Means Advances, and Post Office Saving Certificates, as well as special kinds of Defence Certificates recently introduced. The total amount obtained from this was mentioned officially as 267.5 crores, since war started.* The subscription to the various war loans amounted to 145 crores upto the 31st January 1943, while Defence Bonds, Defence Saving Certificates, etc., as well as provincial and other borrowings, have brought in the balance. In addition, there is a very considerable amount of Treasury Bills outstanding.† Borrowings averaged nearly 19 crores per month during the year.

REPATRIATION OF THE STERLING DEBT.

Mention must be made, in this connection, of the most outstanding achievement, as it is represented, of the conversion of sterling debt of the Government of India, into a corresponding Rupee debt, or Repatriation as it is called. As already mentioned elsewhere, because of the heavy purchases made on account of the British

* cp. Para 42 of the Budget Speech, 1943.

† cp. The Statistical summary of the Reserve Bank of India for March, 1943, Table XIII, which gives the total of the Government of India Treasury Bills outstanding on the 31st March 1943 to be Rs. 116,90,50,000.

INTEREST BEARING OBLIGATIONS OF THE GOVT. OF INDIA (In Crores of Rupees).

	1936-37	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43 Reserved Estimates.	1943-44 Budget Estimates.
In India—								
PUBLIC DEBT.								
Loans ...	437.33	438.40	417.19	450.23	574.55	611.85	762.15	847.24
Treasury Bills and Ways & Means Advances ...	28.54	38.01	46.30	54.70	84.90	136.98	273.98	216.98
Total—Public Debt ...	465.87	476.41	463.49	504.93	659.45	748.83	1036.13	1064.22
UNFUNDED DEBT.								
Service Funds ...	1.11	1.07	1.03	.97	.94	0.92	0.88	0.84
Post Office Savings Bank ...	74.68	77.55	81.88	78.32	59.51	52.18	50.33	53.53
Post Office Cash Certificates ...	64.40	60.21	59.57	57.03	49.28	43.37	39.37	38.37
State Provident Funds ...	70.62	69.68	72.40	75.22	78.03	81.19	82.24	85.83
Other items ...	9.12	9.65	10.25	10.70	11.15	11.48	11.83	12.14
Total—Unfunded Debt ...	219.93	218.16	225.13	222.24	198.91	189.14	185.65	190.71
DEPOSITS.								
Depreciation Reserve Funds ...	19.82	22.73	27.82	33.47	44.38	60.54	84.22	94.86
Provincial Balance ...	1.00	...	...	...	...	...	6.00	14.00
Total—Deposits ...	20.82	22.78	27.82	33.47	44.38	60.54	90.22	108.86
Total—Obligations in India ...	706.62	717.35	717.01	760.64	902.74	998.51	1312.00	1,363.79
In England—								
PUBLIC DEBT.								
Loans ...	400.96	396.75	396.50	373.46	278.37	147.20	32.98	18.15
War Contribution ...	22.29	20.62	20.62	20.62	20.62	20.62	20.62	20.62
Capital portion of Annuities created in purchase of Railways ...	53.15	50.52	47.82	45.02	42.12	39.11	36.00	32.78
Total ... Public Debt. ...	476.40	467.89	464.94	439.10	341.11	206.93	89.60	71.55
UNFUNDED DEBT.								
Service Funds ...	16.67	11.92	4.18	4.12	3.82	3.77	3.22	3.68
Total—Obligations in England. ...	493.07	479.81	469.12	443.22	344.93	210.70	93.32	75.23
Grand Total ...	1,199.69	1,197.16	1,186.16	1,203.86	1,247.67	1,209.21	1,405.32	1,439.02

cp. Explanatory Memorandum to the Budget 1940 to 1943.

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Government for providing war supplies, etc., sterling has been accumulating with the Reserve Bank of India, ever since the war started, at an accelerating rate. These amounts have been utilised to make payments of both terminable and non-terminable sterling debt of the Government of India. The British Government has issued vesting orders compelling the holders of such India stocks to convert them into sterling, and thus facilitate conversion. The Government of India had similarly issued orders under the Defence of India Act, for the Indian holders of Sterling Debt to do likewise.

The actual process of repatriation has two stages. The first to acquire the necessary amount of sterling from the Reserve Bank of India, so as to make payments to the holders of the India Debt, and second to obtain the rupees necessary to pay for this sterling. The first operation of acquiring the necessary amount of sterling presented no difficulty, because of the accumulated sterling balances in the Reserve Bank of India. Regarding the second, rupees could not be obtained all at once in the necessary quantities by borrowing from the open market, and much less from taxation. They, therefore, adopted the procedure of persuading Indian holders of the sterling stocks to accept equivalent counterparts, roughly on a basis of parity with similar Indian Securities. For the balance, in the first instance, the Reserve Bank took it over, and accepted rupee counterparts, using the balances accumulating with it for the purpose. And where that failed, *ad hoc* Treasury Bills were issued to, or Ways and Means Advances made by, the Bank.

When this stage was over, and the Sterling Debt

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was liquidated, Government proceeded to cancel such of the stock as they thought to be in excess of the absorptive capacity of the market over the next few years; or was not needed for the marketability of such counterparts of the stock as was in the hands of the public. In consequence, it was stated in the Finance Member's Budget Speech in 1942: "47 crores of Stock, including that taken over from the Reserve Bank, was cancelled". The net result by 1942 was the cancellation of 105 crores worth of sterling debt at a cost of adding 92 crores worth of rupee debt. The *ad hoc* Treasury Bills taken up by the Reserve Bank to facilitate the operation of the war in the course of the year gradually cancelled against the transfer of sterling from the Banking Department to the Issue Department.*.

In 1942-43 the process was carried further, and another large block of sterling debt was repatriated. No rupee counterpart was created this time; the necessary amount being provided by *ad hoc* Treasury Bills issued to the Reserve Bank of India. The stray lots of vested stocks, as well as the market purchases of $3\frac{1}{2}$ per cent. stock, were financed from balances; and for the last and final stage of redeeming $58\frac{1}{2}$ millions of $3\frac{1}{2}$ per cent. stock, the rupees were provided by *ad hoc* Treasury Bills.

In all some 300 million pounds of sterling debt has

* By the end of December 1941, out of some 139 crores of rupee counterparts created since repatriation was first undertaken, Rs. $47\frac{1}{2}$ crores had been cancelled, Rs. 51 crores were in the hands of the public, a little over 31 crores were held by the Reserve Bank and $9\frac{2}{3}$ crores were held at Government account. (cp. Budget Speech, February 1942, para 35 *et seq.*).

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been repatriated since the outbreak of the war. The authors of the scheme claim great credit because the process has involved little or no disturbance to the money market.

Large sterling balances are still available after this repatriation. Government are, consequently, engaged, according to the last budget speech of the Finance Member, to consider ways and means for reducing still further their sterling liabilities, such as Railway Annuities, Family Pensions, and Provident Funds. The first of these has already been arranged for by a lump sum payment of 30 million pounds to the British Government, who have undertaken to provide the amounts necessary every year to pay the annuitants, until the whole liability is cancelled. When the arrangements have been completed for the second category, viz. pensions, etc., now payable in sterling, to be also similarly liquidated, it would be substantially correct to say that "India has completed the transition, from a debtor to a creditor country, and extinguished, within a brief space of about three years, accumulations of over decades of its public indebtedness to the United Kingdom".*

CRITIQUE OF THE POLICY OF REPATRIATION.

Viewing the programme of repatriation as a whole, there are several features very well worth commenting upon. The main incentive for resorting to this method was, as the Finance Minister himself has said:

"The immediate object of the transaction was the replacement of sterling by rupee obligations; and

* See para 47, of the Budget Speech, February 1943.

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the real gain to the country lay in the liquidation of external obligations, which might prove an embarrassment in the future. Another aspect of the operations was the manner in which they assisted His Majesty's Government to finance the prosecution of the War. If India repaid her creditors in London. the greater part of the sums disbursed would be released to His Majesty's Government, in the form of investments and Defence Loans".

The desire to assist, in this manner, British Government's war financing was, of course, the immediate motive compelling resort to this method. A feeling is entertained in some minds, ever since 1931, that the British authorities in India had taken alarm regarding the fate of the large British capital holdings in India. By that time, the repudiation of the Reparations obligations foisted upon Germany was an accomplished fact. And as though that precedent, combined with Russia's wholesale repudiation of the Tsarist debts, was not enough, Britain and France and Italy provided another shining example of a bare-faced repudiation of their respective war-debts to America. Ireland, when De Valera came to power in that country, imitated these worthy precedents, and declined to pay the British investments in the Irish Land Purchase Acts, until adjudicated upon by an International tribunal, on which there should be no representation of the parties to the dispute. Whether the Irish demand was a mere bluff, or a genuine offer, Britain, perhaps conscious of having none too clean hands, declined to call the bluff, or accept the suggestions

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on the ground of her imperial prestige, or sovereignty.

These cases had thoroughly undermined, if not undone, the ancient regard for sanctity of contracts, whether political treaties or economic agreements. In 1931, India, too, followed suit, in a manner of speaking. The Indian National Congress, in that year, resolved to have investigated, through a Select Committee, the equity or validity of the Foreign Obligations of the Government of India. The suggestion was implicit in the Report of that Committee, that a very large portion of these obligations were not justly due from this country. Alarmed by this turn, Anglo-Indian financiers quickly evolved a policy of realising sterling investments in this country, beginning with that portion for which the Government were responsible. Though the sole representative of the Congress, Mahatma Gandhi, had declared from his place in the Round Table Conference, 1931, that India would pay, with the last drop of her blood, every rupee that was justly found due from her, Anglo-Indian apprehensions continued, sub-consciously, in an ever widening circle, — a proof, perhaps, of a guilty conscience. These may, therefore, be regarded as a remote factor, leading to the same result. British investments are being realised by transfer to Indian capitalists even in private industry or business, so that India would now have little or no bargaining power at the next Peace Conference, where such matters may be inevitable. From this point of view, therefore, the achievement of repatriation of the sterling debt is by no means a blessing.

The claim that the process has resulted in consider-

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able reduction of the debt, and consequent saving of interest charges, is not of very great importance, either. The "embarrassment" referred to by the Finance Member, likely to result from the presence in considerable volume of sterling payments every year, has, no doubt, been noticeable all through the last 70 years' operations of the Government, particularly in connection with rupee-sterling relationship. The rupee has at each stage been manipulated in its sterling exchange value so as to provide a concealed advantage to the British importer in India. India's productive organisation has suffered an unseen handicap in consequence, which is, in my opinion, too great a price to pay to save some embarrassment of their own creation to the Government of India.

To the extent that this process has eliminated the sterling obligations of the Government of India, it is no doubt true that the rupee would now be free, completely, from the sterling leading strings. The Government of India of the future may consequently look forward to managing this country's currency as an independent unit, and exclusively to suit the interests of this country. The first step to this end, already indicated, would be to sever the present forced, artificial, unnatural link with sterling at the earliest convenient opportunity. When that is accomplished, India would be ready and willing to co-operate in an honest world currency union, to the success of which I have no doubt we would be able to contribute materially, if only we could be free to operate such machinery from our side without any handicap of an outside connection or foreign domination.

While recognising this gain, however, it is impos-

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sible not to add that the amount thus repatriated, used to carry interest at about 3 or 3½ per cent only. This is, relatively, a small annual burden. If, instead of the following, this method, the accumulated sterling balances or securities had been used to provide the necessary capital equipment purchased from America, while that country was not wholly organised for war production only, for intensifying the industrial advancement of this country, and setting up key, as well as other important and productive industries in India, the wealth and taxable capacity of the country would have been very much increased. The inevitable consequence of such a development would be that the burden of this interest and sinking fund charges would have proved relatively insignificant. This is an aspect of the programme of repatriation, which has scarcely struck anybody in the ocean of praise that has been showered upon the achievement. Looking, however, both to the present and the future of this country, it is impossible to omit altogether any mention of it in a review of the latest financial developments in this country, as I have attempted to do in these Lectures.

LEASE-LEND AND INDIAN WAR FINANCE.

Because of the vast scale on which outlay was needed by this War, all the traditional methods of financing soon proved inadequate; and recourse had to be had to new devices, grounded in totally new principles. The relative security of the United States from actual warlike operations on its own territory, and the immense potentiality of its productive resources, coupled with the intense, active sympathy felt by that country

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for the cause of freedom and democracy professed to be represented by Britain, led it to devise new ways and means to render substantial and effective assistance to Britain in her hour of need. The latter had to import heavily from the United States, as her own production was inadequate, and threatened with dislocation. She had, moreover, made an earnest effort to pay for all she bought from the States upto the end of 1940. But it was obvious her resources could not equal the ever increasing strain for long; and hence the new method, called Lease-Lend, was invented in America. While the United States was herself neutral, or non-belligerent — the volume of this aid was not all that it could be; and has in fact been after that country was involved in the struggle on her own account.

This new system has now been extended to practically all the United Nations of whom India is one, though only as an appendage of Britain. India benefits, and returns it, too, on a considerable scale. Let me, therefore, briefly describe the system in general; and then examine its effect on India in particular.

The United States passed the necessary legislation, officially called an act "to promote the defence of the United States" on March 11, 1941. At that time, it was itself a neutral country, though its sympathies lay unmistakably on the side of the British Commonwealth. Since the fall of France, in June 1940, that agglomerate was alone in fighting Nazi Germany; and badly needed assistance, particularly on the financial side.

With the advent of the Lease-and-Lend system, the necessity to pay cash or equal value for any defence

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article or information, necessary for carrying on the war, was dispensed with. It would, however, be a mistake to assume that there will be no need whatever to pay for the materials or services obtained by one country from another under this system. Payment or return has, in fact, to be made, though not necessarily in cash, nor in equivalent goods. One proof of that is found in the conclusion of Reciprocal Aid agreements between the U.S.A. and the receiving countries, which, as we shall see later on, pledge themselves to render all aid, provide all material, services and facilities that they can afford, in consideration of receiving similar aid from the United States.

There is, besides, a considerable field not covered by this arrangement, for which cash or equivalent must be paid. For the Lease-Lend system applies only to those articles etc., which are impossible to procure in the ordinary market.

The Lease-Lend system, again, operates only as between governments, and not private individuals or corporations. Even Provincial governments in India, Railway, or Local Bodies, cannot avail themselves of the benefit of this arrangement except through the Government of India. In so far as the material or information obtained through Lease-Lend is to help industry in private hands — and the bulk of industry in India is in private profit-seeking hands—it is doubtful if any real or lasting impetus can be derived from it for the benefit of India's industrialisation.

On the passing of this Act very large sums were appropriated for this purpose, out of which as much as

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18 milliards were appropriated to the President for direct assistance under this system. It took some time for the new system to get into a proper swing, regearing and reorienting the country's productive machinery upto the required pitch to serve for war purposes.

The process was intensified by the United States itself entering into the war, in December 1941. Since then specific appropriations on this account have become unnecessary. "All the resources of the United Nations are now part of the common pool, out of which arms and men pour, as considerations of military strategy dictate. Into this pool flow Lend-Lease Munitions, together with the entire military, air, and naval strength of all the United States."

The system provides aid to all those countries, the defence of which the President of the United States deems vital to the defence of the United States, subject to the condition that —

- (1) This aid is to be provided on the request of the government of an allied country to supply articles or information essential for the war, and which cannot be obtained by payment in Dollars or other currency available to the requisitioning country.
- (2) Articles or services thus placed at the disposal of any of the Allies shall not be disposed of except after consultation with the military Chiefs of the U.S.
- (3) An absolute maximum is laid down of \$1300 million for the transfer of defence articles, not specifically manufactured under the autho-

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rity of this legislation.

- (4) Defence articles manufactured in the United States in the future under Appropriations, other than those authorised in the Lease and Lend Act itself, are not to be disposed of under that legislation, except to the extent authorised by the Congress in the Acts appropriating such funds.
- (5) The Lend-Lease aid requested must come within the scope of the American legislation, and must be of the most economic and efficient type suitable for the intended use.

The Act empowers the President to impose such terms and conditions as he deems satisfactory for giving aid under this Act to any of the United Nations. The return or benefit to the United States may be either cash payment, or payment in kind, or property, or some direct or indirect benefit, which the President deems satisfactory.* Even though repayment in kind is permitted under the Act, cash payments are not absolutely excluded. In fact Section 102 of the Second Lease-Lend Appropriation Act specifically lays down that the President may authorise the Head of any Department or Agency of Government to enter into contracts for procuring defence articles, information, or services, for any such foreign Government whose defence the President deems vital to the defence of the United States, to

* cp. Section 3(b) of the Act. Practically the whole of this portion is based on the Lease-Lend administration Reports (V and VI), the text of the legislation and agreements made thereunder, Press reports and "Lease Lend: What it is and How it works" by Sir T. E. Gregory and M. W. M. Yeats.

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India is reported to have received from March 11, 1941 to 1st January 1943, \$ 295,501,494 Lease-and-Lend aid; while according to the latest report of the Lease-Lend Administrator, on the Second Anniversary of the Act, upto the 1st of March, 1943, \$ 595 million worth of aid was received. One-fifth of this represents machinery, tools and raw materials.* India's own natural resources, — factories, arsenals, harbours and other

* cp. Times of India, 12th March 1943. Cable dated Washington, March 11, 1943. Figures supplied by the Lend-Lease Administration, Mr. E. Stettinius, on the occasion of the 2nd anniversary of the legislation.

There seems to be some confusion in the cabled reports published in the Indian press, regarding the period as well as the amount of aid obtained by the several countries: The cables dated Washington, March 11, 2nd anniversary of the legislation mention these figures as of "aid received during the quarter ending March 1, 1943." The amount is stated in sterling and appears much too great for 3 months. On the other hand, the Lend-Lease Administrator is reported to have told the Senate Foreign Relations Committee that from 'March 11, 1941, to January 31, 1943, the U.S. had transferred and serviced goods under Lease-Lend totalling \$8935 million=£2211.38 million to 'all United Nations.' The latter seems more within the compass of the Lease-Lend appropriations. The former relate to the period (quarter ?) upto March 1, while the latter upto January 31, 1943. But it seems more reasonable to take even the former (aggregating £2407.955 million) to represent the total aid since March 11, 1941.

The same applies to India. In a cable dated Washington, March 4, 1943, according to a special report on Lend Lease aid to India, by the U.S. Office of War Information, it is stated:

"From its inception in March, 1941, to January 1, this year, Lend Lease aid to India totalled \$295,501,494 in value". On the other hand Mr. Stettinius' Report on the occasion of the 2nd Anniversary of the Lease Lend system, stated the aid to India, 'for the quarter' ending March 1, 1943 to total \$595,000,000/-. Even allowing for a difference of 2 months, the amount cannot have increased to such an enormous extent, i.e. 100 crores Rs. In the earlier report it was stated that 2/3 (i.e. 200 million dollars worth) of the materials sent were actual war

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transportation facilities, — are being developed to prepare her for an important role in the war against Japan,** for which she is being made a reservoir of supplies for the Burma, China, India war zone.

India has also been giving in return very substantial reciprocal aid to the American forces in India, even though there is, at the moment of writing, no reciprocal Lease and Lend agreement between this country and America.

In the absence of any such agreement between India

materials, while the later report stated that 1/5 of the total (i.e. \$119 million) represented machinery and machine tools to India. It may be that these figures are mutually consistent, because of the difference in the period. But until the original documents actually are available in India, it is impossible to verify and be precise.

** In a special report of the United States Office of War Information on Lend-Lease in India, it was stated that "Lend-Lease programme for India" included improvements of Indian Harbours, and Railway systems; increased shipments of machine tools and raw materials to enable her to expand the production on the spot of Munitions and other supplies, to economise shipping from the United States and England. From its inception in March 1941, to January 1st this year, Lend-Lease aid to India totalled 295,501,494 dollars in value. Two-thirds of the materials sent to India were war material. The remaining third consisted mainly of machinery and tools. Increased quantities of American Steel are being poured into India for the manufacture of Armoured Vehicles, Artillery, and Munitions. It is hoped at the same time to increase India's own steel output by 50 per cent. Lend-Lease supplies to India ranged from flash lights to locomotives. India is building ships and repairing or constructing aerodromes and extending her agricultural and mining facilities. As a base for supply to China, India is of additional importance. American owned automobile plants in India turn out thousands of military vehicles with Chassis parts shipped largely from Canada. India has nearly 300 Textile Mills which are now working to supply the American army uniform suitable for hot climate.

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and the United States, the nature of India's participation in the Lease and Lend arrangement for the supply of goods, services or facilities, and the character of the consideration given in return, are very difficult to determine. It is, of course, impossible to treat India's receipt of Lease and Lend aid from America as part of that aid rendered to Britain. For that, if permitted, would enable the British Government to impose their own terms and conditions for passing on some of the Lease-Lend supplies to India. A definite provision of the American legislation forbids the transfer of such goods, etc., to countries other than the one directly given such aid, without the consent of the President of the United States. America, likewise, does not desire that any profit should be made out of this arrangement by a receiving Government. The arrangement, moreover, does not apply to anything that could otherwise be obtained by cash payment in the ordinary market. A subsidiary arrangement between Britain and India is thus out of the question, even if Britain desired it.

The United States forces, moreover, having been stationed in India, there is an evergrowing need to provide them with the necessary supplies, services, and facilities, e.g. harbour and other transport facilities, aerodromes &c. It emphasises the necessity of a separate agreement between the Government of this country and the United States for reciprocal aid under the Lease-Lend system. No such agreement has yet been arrived at; but the Assembly has been informed negotiations are going on. The nature of these negotiations is not disclosed. But pending them, reciprocal Lease and Lend

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aid is being provided in India for the United States forces in India, on a very considerable scale. The cost is treated as a charge on Indian Revenues, and included in the defence estimates. Material obtained by the Indian Government through Lease and Lend, and supplied to Provincial Governments, Railways, other Government Departments run on commercial or semi-commercial lines, as well as the general public, is taken credit for on the same account.

The exact amount on this account is difficult to state. The Finance Member has explicitly warned us that —

“Owing to various unpredictable factors and accounting difficulties, the accurate assessment of this cost is impossible, — at any rate, at this juncture. Any figure given, therefore, must be taken with the greatest reserve, as being little more than rough guesses. Similar caveat applies to an even greater extent to any estimates of the value of Lease-Lend supplies to India. The uncertainties of shipping alone render it impossible to say what Lease-Lend goods will reach India in any given time.”*

Subject to this reservation, the reciprocal aid to the American forces in India, charged on the Indian Defence Estimates, was 16.70 crores in the revised budget for 1942-43, and 8.04 crores in the Budget Estimates for 1943-44. Against this we have received upto Jan. 31, last, some \$ 295 million, or over Rs. 100 crores worth of goods and services from America** Not all this is of

* cp. para 26 of the Budget Speech.

** cp. 'ante' p. 154.

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course to remain in or benefit India. Such of this material as is consumed, lost, or destroyed would, of course, be gone. And that which remains may have to be returned to America, if the President deems it useful for his country. Only that which is not thus returned, and is in excess of what India has provided free during the operation of this system, can be taken to represent net benefit to India, if it is used to develop Indian industry.

THE ESSENCE OF THE MASTER AGREEMENT.

To avoid all troublesome complications in accounting, to make smooth the flow of mutual aid, and to provide a model for regulating that flow on all sides, a specific agreement was concluded between the U.S.A. and the United Kingdom, which is now known as the Master Agreement.

The spirit of the Lease-Lend arrangement assumes it to be a co-operative undertaking between all the Allies. They are expected to pool their resources, and distribute them according to the need of their common objective. For obvious reasons, the determination of the *quid pro quo* or striking a balance between the aid received and rendered, has to be deferred until such time as the total aid rendered on either side is known. And the progress of events makes clearer the final terms and conditions, as well as benefits, which will be in the mutual interest of the parties concerned. But to facilitate smooth working in the meanwhile, agreements have been entered into between the U.S.A., on the one hand, and each of the several allies on the other, to regulate the mutual flow of aid, definitising the points needing

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explanation. Thus it has been explicitly stated in the Act of March 11, 1941, that the terms and conditions upon which a foreign government receives aid "shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind, or property, or any other direct or indirect benefit which the President deems satisfactory", because the Congress had recognised the danger to trade and to political stability inherent in the accumulation of large dollars debts.

The President has already recognised, as direct or indirect, repayment in kind the following.

- (a) Military contribution to American security flowing from any ally's active association in fighting the axis powers.
- (b) A variety of services, supplies, and information for use of American forces fighting on the soil of such ally.
- (c) Understanding with several allies regarding future commercial policy as indicated in Article VII of the Master Agreement with Britain.

Dollar payments for materials etc., received by the U.S.A. are not altogether dispensed with. They are used mainly to enable the allies to make cash purchases in U.S.A. not covered by the Lease-Lend system.

Under the Master Agreement made in February 1942, between the American and the British Governments, both Governments undertake to provide and

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contribute to their mutual defence, to the utmost of their ability, articles, services, facilities or information, needed for the purpose. When the war is over, the receiving Government undertakes to return, to the Government rendering aid, all the defence articles transferred under the agreement, which are not destroyed, lost, or consumed, and which the President of the United States considers useful in the defence of the United States of America, or to be of use otherwise in that country. Over and above the transfer of such articles, as remain still unconsumed or undestroyed, if any balance remains, due significance would also be attached to all properties, services, information, facilities or other benefits or considerations, provided by one country, after March 11, 1941, and accepted or acknowledged by the other. Amongst such benefits, needless to add, the continued maintenance of the struggle by Britain occupies no small space.

The most significant articles in the Master Agreement is No. VII, which provides that, in the final determination of the benefits or return to be made to the United States by Britain, on account of the aid, obtained under this system, the terms and conditions would be such as would not

“burden commerce between the two countries, but (would) promote mutually advantageous economic relations between them, and the betterment of worldwide economic relations. To that end they shall include provision for agreed action by the United States and the United Kingdom, open to participation by all other countries of like mind,

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directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of the economic objectives, set forth in the Joint Declaration made on August 12, 1941; by the President of the United States and the Prime Minister of the United Kingdom."

Following the essence of this arrangement to its logical conclusion, it has even been suggested by the President, while presenting his fifth report to the Congress on the working of the Lease and Lend system that, if one of the members of the United Nations devoted to the common cause as high a percentage of its national income as another, then it is taken to have discharged its obligations, and cannot be said to "owe" anything, in respect of whatever may stand against it, either in old fashion financial accounting, or in the new fashion physical accounting of Lend and Lease.*

There is thus no expectation of any cash return, or even in kind for the goods and services supplied under the Lease and Lend system. But it must be pointed out that devoting equal proportion of a national income to the common cause may mean totally different sacrifice for different countries. For example, 10 per cent of

* Economist, 27th June 1942.

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her national income devoted by India would mean a much greater sacrifice upon her people, than 40 per cent by Britain, or the United States, with their much larger national wealth. It is, moreover, difficult to decide as to exactly what has been obtained, for which such return has to be made. The expulsion of the Japanese, for example, from the Chinese soil, may be a much greater benefit to China, than to India treated as a base of operations for reconquering Burma, Malaya, Singapore or the Dutch East Indies. Moreover, the problem is further complicated by the consideration whether account of all aid or supplies received from the beginning of the war is to be taken, or only from the day when a country joined this system, or entered into the war. All these points must be cleared up before the arrangement can be worked smoothly and satisfactorily.

So far as India is concerned, there are some further points to be borne in mind, before a really satisfactory agreement for reciprocal aid could be concluded. It has been the repeated and insistent complaint of the people of India that their industries are left undeveloped to suit Britain's interests. With the experience of this War, India could no longer be denied her legitimate ambitions to industrialise herself to the maximum of her resources capacity. The operation of Article VII in the Anglo-American Agreement must, accordingly, not be such, as applied to India, as would preclude her realising this ambition in the shortest time possible after the War.

Secondly, in view of India's very limited resources, some definite limit must be placed upon the maximum reciprocal aid expected from her: India is not interested

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in reconquering Burma, Malaya and Eastern Archipelago for exploitation by Britain; and she has not the least desire to do so for herself. The supplies, services, and facilities provided for American forces engaged from India as a base in such operations could scarcely be treated by her as return in kind for the benefits received by herself. There is reason to believe those benefits may prove to be much below the sacrifices India would have to make to provide supplies, services and facilities for the Anglo-American forces based on her soil, and working for the expulsion of the Japs from adjoining countries. Even removal of the Japanese menace to her own security is apt to be over-valued by the British, though I have no intention to question the significance of that service to India.

Finally, any agreement for reciprocal aid, which India may make with the United States, should, in my opinion, provide some safeguards against the vast amounts of accumulated sterling securities in India's currency reserves, and the consequent reaction upon her domestic price level. It is admitted to be the interest of all to maintain stability of world exchanges. India is, by the strength of her export position, and the reduction of her foreign obligations, a strong creditor country in the world market. There is no reason for her to continue linking her local currency with the British unit, on a fixed ratio. Much less, there is any advantage in accumulating unlimited supplies of sterling balances or securities as reserves for the Indian credit or currency system. The United States are in a position to reassure India on these points, either by agreeing to provide silver, or gold of

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which she has superabundance, for the bulk of these sterling balances and securities; or, alternatively, assure her a position in the proposed arrangement for the World Currency Union, which would amply safeguard India's local currency in international exchange.

CONCLUSION.

I have now covered the entire field of these Lectures. Every problem arising out of war financing has been glanced at; and viewpoints presented which, I am afraid, are not always to be found in official pronouncement or presentment. Whatever your appreciation of the views expressed here, one fact I would like to emphasise at the risk of repetition. India's contribution in the war finance is substantial, much beyond her concern, perhaps beyond her ability. But neither the appreciation of that contribution is adequate, nor the return likely to be equivalent. Nor will the contribution be what it might have been, had the country been under its own national government, commanding the full confidence of its people.

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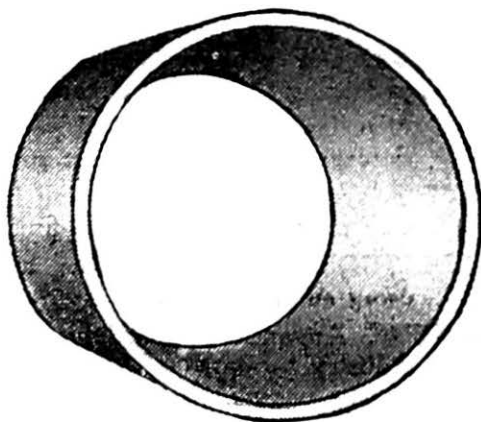
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