

## NOTE

Inflation is a national crisis. All the elements of our economic life must, therefore, in time make a conscious and concerted effort to combat it. Complete cooperation among all interests on the basis of a clear perspective of the problem can alone make this effort a success.

In the interest of public knowledge the Economic and Political Research Department, A. I. C. C., is issuing this bulletin, which traces in brief the development of this crisis and the steps the Government of India has taken before and after formulating its policy to avert it.

New Delhi

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# COMBATING INFLATION

**INTRODUCTION;—**The inflationary pressure through which India is passing to-day originated during the war. The following figures would indicate the gradual development of what may be called the first phase of this inflationary rise of prices.

## NOTE ISSUE :

MARCH, 1942.  
Rs. 381.73 crores.

MARCH, 1943.  
Rs. 643.58 crore

## BUDGET DEFICITS

1941-1942.  
Rs. 206.69 crores

1942-1943.  
Rs. 437.65 crores

Through Government's war expenditure, while money came pouring into the market, goods vanished as rapidly. And soon, the characteristic phase of inflation became evident; too much money began to pursue too few goods and the whole-sale price index moved up by about 100 points within a couple of years,

1941  
122

1942  
149

1943  
215

The rise in prices filled the pockets of the manufacturers and big farmers. The flourishing black-market enriched the traders but it impoverished the lower middle class, increased the distress of factory workers and brought untold misery to the small peasants, landless cultivators and agricultural workers. Of course, in organised industries, wages rose; but it did not rise proportionately to the rise in prices. This led to the gradual deterioration of the relation between the management and labour.

Introduction of price control and rationing, however imperfectly administered, and of anti-inflation measures in 1943 and 1944, arrested to a great extent the upward swing of prices. The prices remained relatively stable till the end of the war in 1945.

Since 1946 began the second phase of inflation. With the cessation of hostilities there was a reduction in defence expenditure leading to a welcome fall in the budget deficit from Rs. 4,920 million to Rs. 856 million. But currency expansion continued unabated. The volume of notes in circulation rose from:—

<u>1944-45</u>	<u>1945-46</u>	<u>1946-47</u>
Rs. 969 crores	Rs. 1163 crores	Rs. 1223 crores

Between 47-48 there was a considerable volume of note issue. The note issue, however, dropped to Rs. 1160 crores in September, but steadily went up till the peak was reached in April, 1948 at Rs. 1312 crores—an increase of Rs. 232 crores in 7 months. Since April, there has, however, been a drop by Rs. 100 crores in note issue.

This period of currency expansion synchronised with a specially critical period in industrial production. This contributed to a double movement in the factors intensifying the inflationary spiral. Neither the withdrawal of E.P.T. nor the lifting of price control, which according to a section of businessmen operated as an impediment to production, could stimulate the business world to produce more. The slogan 'Produce or Perish' proved an empty slogan. The removal of control without eliminating the inflationary potential gave a fillip to the upward march of prices through increased blackmarketing and hoarding. The disturbances following the partition of the country, mass movement of population and the wanton violation both by management and labour of the *INDUSTRIAL TRUCE RESOLUTION* put one spoke after another into the wheels of the country's production. The following figures would give a clear indication how production fell by leaps and bounds.

products including food articles, rubber and rubber products 130'7. In June 1948 they moved up respectively to 151'9 and 134'7.

Though the Reserve Bank Governor, Sir C. D. Deshmukh, in his address at the 14th Annual General Meeting of the Shareholders, assured that despite the abnormal increase in prices, there would appear to be no need of taking a panicky view of things, it was generally felt that the situation created by the inflationary rise of prices, unless checked in time, may go out of control and the seething discontent among the people might have serious and wide political repercussions. The Dominion Parliament had one full day debate on inflation and prices. The Govt. assured the House that after consulting the various interests, experts and others it would declare shortly its policy regarding anti-inflation measures.

The Government consulted economists, industrialists, labour leaders and bankers. The following is the summary of their recommendations.

ECONOMISTS' VIEWS : The economists in their recommendations suggest that remedial action would require joint action by the Government of India and the Provinces. As regards the action by the Government of India, they suggest that a supplementary budget should be introduced in October to give effect to anti-inflation measures; grants to provinces out of central budget should be discontinued unless it could be demonstrated that they would add to the production of essential commodities in a short period, refund of Excess Profits Tax in deposits should be postponed all capital expenditure should be financed by genuine borrowing, stringent measures should be devised to prevent tax evasion; the rate of business tax should be increased to 25%; steeply graduated Death duties should be introduced.

Regarding borrowing, the economists suggest that Treasury Bills of six months' and one year's duration at slightly higher rates of interest should be introduced; attractiveness of small savings should be augmented, terminable Government loans which mature

should not be paid immediately, if under the terms of the loan repayment could be postponed. Agricultural income-tax should be extended to all provinces and a graduated surcharge on payment of land revenue by holders paying more than Rs 2,000 as land revenue per annum should be introduced by all provincial Governments.

Modification of controls on the present system of capital issues for industrial purposes has been suggested, continuation of control of allocation of essential materials, and preference to imports of essential consumer goods has been recommended, except the controls should be exercised with a view to enabling the country to implement any bilateral trade agreements which have been entered into for securing import of essential goods. Dividends declared by companies should be limited to the average of the last two years' dividends and in the case of new companies, they should not exceed 6%. Personal incomes such as wages, salaries and dividends should be frozen and a rebate from taxation should be given as an incentive to industrial expansion.

As a common action by the Government of India and the Provinces, the economists suggest rigorous retrenchment of the wartime and post-war growth of staff in various departments, limitation of expenditure on social, educational and welfare activities; fixation of a ceiling price for all food grains, control of prices and distribution of cotton and cloth should be elaborated, if necessary on the lines of state monopoly. Government should lay down for each major industry a programme of production and the system of production bonuses should be introduced as far as practicable. The present efforts to increase agricultural production should be further intensified. The maximum of the total value of notes issued by the Reserve Bank of India should be limited to the existing amount.

Small-Scale and cottage industries have a special role in the present emergency and should be fully developed with a view to mitigate the essential shortages.

**INDUSTRIALISTS' VIEWS:-** The following are the principal recommendations submitted by the industrialists:-

- (1) immediate abolition of the capital gains tax which has proved most detrimental to fresh investment,
- (2) attempts should be made as far as possible to balance the Central and Provincial budgets,
- (3) any unusual items of expenditure such as loans on the rehabilitation of refugees and the Kashmir operations should not be made out of revenue expenditure but from borrowings,
- (4) In order to augment the central revenues, the purchase tax on luxuries and a specially graduated surcharge on railways, shippings and air fare, should be imposed.

Considerable economy in governmental expenditure should be effected as far as possible.

Machinery of tax assessment and collection should be improved and arrears realised.

While long term projects of a productive character need not be shelved, expenditure on project should be curtailed to the minimum possible, all new expenditure on social services should be avoided in the immediate future.

Irrespective of the merits of the prohibition policy, its implementation should be delayed or suspended to enable Provincial Governments to restore the budget equilibrium. The Government should definitely put a ceiling to wages, prices and profits at the present levels. This does not mean that wages, prices and profits should be established on these levels. In fact the intention should be to bring down by gradual stages and in the meantime not to permit any increases. Industrialists undertake voluntarily not to distribute dividends above the average of the last three years. In the case of companies which have not yet paid dividends or have paid dividends less than 6% they undertake that dividends distri-

buted shall be limited to 6%. If the Government is not satisfied with the implementation of this undertaking by industry they should take such action as to effectively enforce the proposed limitations.

Imposition of ceiling of prices involves control of essential commodities. Production both in agriculture and industry should be increased. For increasing agricultural and industrial production the following measures are necessary:-

Uniformity of labour legislation throughout the country,  
Improvement of transport,

Rationalisation of labour:—the overall employment of labour is disproportionately large and the attitude of labour is to resist any attempt at rationalisation, Government intervention is therefore necessary.

Introduction of a 3rd shift wherever possible and particularly in the cotton textile industry and regular supply of coal and essential raw materials to achieve this.

Special depreciation allowances should be granted to meet the higher replacement cost of plant and machinery both for expansion of the existing industries and for creation of new ones. In case of new industries relief from income tax should be granted in the first five years.

The Government's industrial policy should be reannounced in order to restore public confidence and in particular the declaration of the Government that it would review the position in certain basic industries at the end of 10 years with a view to consider the possibility of further nationalisation should be deleted.

A vigorous savings campaign should be organised on a countrywide basis to attract surplus money from farmers and factory workers. National savings certificates

should be made available to them in suitable denominations at convenient centres throughout the country and through a greater number of agencies. The certificate should be printed in different regional languages and should provide for easy and ready encashment. Industrial workers should be encouraged to invest their annual bonuses in some form of savings.

There is no need to raise the bank rate or to float new Government loans on higher rates of interest. Such action will only disturb the investing market.

Treasury Bills of maturity varying from 3 to 12 months and in lower denominations should be introduced.

The Reserve Bank should be empowered to restrict credit in any locality so that such restriction is necessary to keep prices under control. The Government should make an unequivocal announcement that it has no intention to devalue currency, freeze bank deposits or demonetize 100 Rupee notes.

Imports of commodities which really enter into consumption of the masses (food, kerosene oil etc.) should be gradually liberalised. Similarly imports of capital goods, steel, scarce minerals and essential raw materials of industry should also be liberalised.

Statistical organisation of the Government should be strengthened.

A small Committee presided over by the Prime Minister should be set up to co-ordinate Government policy in economic matters. This committee should be assisted by Standing Advisory Committee or Committees, representative of economists, businessmen and labour.

IEWS OF LABOUR LEADERS;—Among other things Khandu Bhai Desai suggests freezing of some portion of



surplus credit and some currency bringing down prices of essential commodities to 150% above the pre-war level. Prohibition of specialisation of essential commodities, opening of fair price shops for food stuffs by the Government, freezing of 1/3rd of the deposits or investment in banks or Government securities by firms and utilisation of sterling releases by the Government alone.

**BANKERS' SUGGESTIONS**:—Among the recommendations of the bankers are:—an all out increase in production, mopping up of surplus purchasing power, restriction of grants of credits by banks and increase in the rate of interest. The bankers appreciate the administrative difficulties of reimposing controls and are sceptical of the ability of the Government to undertake large-scale public enterprise. They suggest that the Government should take a short term point of view and adhere to conservative economic policies.

**VIEWS OF SHRI JAI PRAKASH NARAIN**:—While emphasising an all out effort to increase production, the socialist leader suggests that both import and export trade should be made a state monopoly. The State should try to attract foreign capital and even foreign entrepreneurs in order to accelerate industrialisation on terms that may not be against national interest and special emphasis should be laid on increasing agricultural production through organisation of multi-purpose co-operatives and resuscitation of village Panchayats.

On the monetary side, Shri Narain desires raising of the bank rate, control of bank credit, imposition of a capital levy to mobilise essential capital resources and a purchase tax on luxuries, securing black-market money for State investment and a scheme for promotion of compulsory savings.

**SHRI K.G. MASHRUWALA ON INFLATION**:—Shri K.G. Mashruwala, writing in Harijan on September 19 on inflation and high prices observes:—

"Inflation and high prices have been engaging the serious attention of the Government and the public. Government of India invited, in a conference, industrialists, economists and experts to suggest a way out of the difficulties. They are no doubt intelligent, learned and capable men. They are well posted with statistics and understand international trade and politics.

But the fact is that hardly any one of those who have been called to advise is much the worse personally by reason of the evils he is asked to remedy. Several of them indeed have so far profited by what appeared to the general public as calamities. x x x x x x Rationing has not seriously affected their prewar mode of life. x x x x x x Subjectively several of them are interested in things going on as they are. Howsoever honestly and sympathetically they might attempt to think their instinct of self-preservation will not persuade them to regard any remedy as "practical proposition" if we will subject their class to a considerable reduction of their gains and efforts. x x

x x x x The second fact is that it is the political industrial and economic theories and policies of these political and industrial magnates themselves that have created the present impasse x x x

The third fact is that whatever the University Professors say in their text books on economics, the ruling economic theory all over the world is still "mercantile theory"

x x x x x x The suggestions made by industrialists and economists suffer from the drawbacks mentioned above."

Shri Mashruwala sums up his suggestions thus:-

"The nation must wind up its present industrialism which thrives on wars, foreign trade at the expense of the nation, speculation, increase of luxuries and destructive weapons and lavish way of living. It must not raise augmentation of debts whether called national or private". He suggests a new system of currency by which all 100 rupee and 10 rupee notes should be replaced by

fresh issue bearing a new date of issue and that these notes may automatically be reduced by, say, 1 anna per rupee at the end of the year if deposited in a bank during the last month of the year and that such reduction may be repeated at the end of each year. Thus, a 10 rupee note issued in 1949 would lose 10 annas in 1950 if still in circulation but would fetch the full value if deposited in a bank before the end of the year. It would be further reduced by a rupee and four annas in 1951 and so on

**RECOMMENDATIONS OF THE CONGRESS LEGISLATURE PARTY SUB-COMMITTEE:** The Congress party in the Dominion Parliament on September 2, 1948 appointed a 25 member sub-committee with Prof. N.G. Ranga as the chairman. The Committee submitted its recommendations in a report of 45 sections on September 7.

The following is the summary of recommendations of the report.

**(1) FISCAL AND MONETARY MEASURES** :— The budgets in the centre and the provinces should be balanced and if possible attempts should be made to have surplus budgets. Strictest economy and retrenchment of superfluous staff should be made and if there is still a deficit it should be made by taxation. Grants to provinces may be reduced but such reduction should not be made at the expense of any activity which may increase production of essential commodities. It may be desirable to spread these grants over a longer period instead of stopping them suddenly which may cause dislocation to the plans already in hand. Refund of E.P.T. deposits should be postponed except where such refunds are demonstrably required for replacing or adding to capital equipment or increasing the productive capacity of plants calculated to add to the production of essential articles in the near future. An Expert Committee of high level should be appointed to review the grants to provinces as well as to deal with applications for refund of E. P. T. deposits and to ensure that deserving cases are fairly dealt with while utmost economy is achieved.

Capital expenditure should be financed as far as possible by genuine borrowing. With a few exceptions production projects should be pushed through at any cost even if they may take a few years before they can add to production.

Vigorous attempts should be made to collect all arrears of income tax, super tax and business tax and Income-tax Investigation Commission should be armed with such additional powers as it may desire to enable it to complete its work quickly and successfully. The newly enacted section 34 of the income-tax should be used to the fullest extent to maximise collections. Death duties should be imposed as early as possible. The other items of direct taxation mentioned by the economists may be considered at the time of the next budget and their imposition at the present time through a second budget is not desirable. Excise and customs duties on luxuries may be raised. The Majority of Members considered that possibilities for a capital levy should be explored. Treasury bills of 6 months and one year's duration on higher rates of interest should be introduced and the interest rate policy on Government borrowing should not be changed.

While the attractiveness of small saving for voluntary investment should be increased by all possible devices and a popular campaign inaugurated for its promotion, it should be an auxiliary to a scheme of compulsory saving which will ensure sufficient funds for Government expenditure and mop up a fair amount of the surplus purchasing power.

As collections for Mahatma Gandhi memorial fund would have the same effect as savings, the Committee, in sharp contrast to the recommendations on this point by the economists, recommended maximum efforts to promote such collections.

The following scheme for compulsory saving was recommended:—

- (a) all wages and salaries of employees of Government, local authorities, industrial and commercial firms etc. should

be paid in savings certificates of 3 years' to 10 years duration and carrying a fair rate of interest to the following extent:

Wages and salaries of Rs. 51/- to Rs. 200	per month	2½%
do	201/- Rs. 500	" 5%
do	501/- Rs. 1000	" 7½%
do	1001/- Rs. 2000	" 10%
	2001/- and above	" 20%

These amounts should be collected on a slab system.

- (b) Persons with professional or business income who do not pay super tax and who are not subject to compulsory savings under 'A' should deposit in savings certificates 50% of the amount of the income-tax paid or assessed in the previous year.
- (c) 50% of the bonuses earned by persons whose salaries are above Rs. 5,00 per month should be deposited similarly.
- (d) Pattadars in ryotwari areas and tenants in zamindari and malguzari areas should deposit in savings certificates half as much as their land revenue or rent, provided that suitable exemption limits may be prescribed by the Provincial Governments.
- (e) Zamindars and Malguzars should deposit between 5% to 25% of their gross revenue as may be fixed by the Provincial Governments according to local conditions.
- (f) 25% of all dividends should be paid in savings certificates.

The committee recommend that the daily subsistence allowance paid from public funds be cut by 12½%. The Reserve Bank should not allow any further increase in the note issue and should as far as possible reduce it without causing any dislocation. Banks should be required to hold a larger percentage of total liabilities in Government securities.

**CONTROLS:-** Efficient administration of control is regarded as the very basis of price control. In deficit provinces or areas statutory rationing of foodgrains in cities and as far as possible in other scarcity areas and in self-sufficient and surplus provinces or areas a system of partial rationing limited to low income groups with freedom to supplement from the open market, fair price shops in as many places as possible in non-rationing areas and securing of adequate quantities of foodgrains of import and local procurement by the Central and Provincial Governments are needed. The committee advocates compulsory levy of food grains after leaving enough grains for peasant's family, agricultural labour, and seeds etc. from all agriculturists having more than the minimum acreage as prescribed by the Provincial Governments. This procurement must be made at a price attractive enough to induce peasants to grow food crops in preference to other crops and make it easy to enforce the procurement policy.

Fixation of a floor price a little below the procurement price but reasonably profitable to the cultivators, state purchase of grains at the floor price, fixation of a ceiling price somewhat above the procurement prices are also needed. Peasants, however, would be free to sell in the open market surplus grain after their contribution of the quota according to the procurement scheme. So long as the grain is sold between the floor and ceiling prices complete freedom of movement should be ensured. Procurement prices should be announced well before the harvest.

The scheme of cloth control recently adopted by the Government is approved. Production of finer cloth should be restricted as far as possible, and production of varieties and durable cloth needed by the masses should be maximised. Dividends declared by the Companies should be limited to the average of the last two years. For those who have been declaring dividend more than 6% and for the rest no dividends above 6% should be declared. Distribution of reserves in the form of bonus shares or otherwise should be prohibited. Payment of salaries free from all income-tax should be prohibited and a maximum of Rs. 50,000 a year

should be subject to income-tax fixed for salaries. Any amount paid to any person over Rs. 50,000 shall be treated as part of profit and taxed accordingly. Allowances of any kind including conveyance, entertainment etc. should not exceed 20% of the salaries. Free housing and other amenities should be evaluated and included in these allowances.

IMPORTS & EXPORTS :—Attempts should be made to import gold and silver particularly the latter and sell it to the market as an effective means of absorbing surplus purchasing power. Import programme should be so arranged that sterling release under the recent agreement may be fully utilised. For exports the principle should be that only minimum quantities of essential commodities which are necessary for consumption in India should be promoted in exchange of other imported goods.

Every possible effort should be made to eliminate corruption, in the issue of licences for imports and exports and some impartial machinery should be devised for this purpose.

PRODUCTION : The increase of Agricultural production should be given top-most priority. Prompt and adequate supply of fuel, iron, cement, timber, cattle-feed, manures etc. to the peasants at reasonable prices should be ensured.

Small irrigation scheme such as tube-wells, tanks, ordinary wells and repairs of minor irrigation works should be undertaken directly by the provincial Government to the utmost possible extent.

Nation-wide competition in agricultural production limited to small and medium holdings should be started. Attractive prices should be offered for the best producers of food grains in every village or group of villages. This is likely to yield much better results than the money spent on advertisements in English newspapers on Grow More Food Campaign.

Distribution of manure, seeds, implements etc. as also consu-

mer goods like cloth, kerosene should be secured through Village Panchayats or Food Councils as part of the campaign for increased production. Development boards and agricultural finance corporations with adequate representatives of small peasants, starting of a machine tool plant, factory for production of electrical requirements, a factory for production of industrial combustion engines are also needed.

**COTTAGE INDUSTRIES** :—The encouragement of such cottage industries as can be organised quickly and particularly, hand spinning, is of the greatest importance and the Committee feels that wherever possible, this should be done on co-operative lines. There should be no hesitation in providing substantial subsidies for this purpose and it should be preferable that they should be given in the form of tools and raw materials at reduced rates. Central and provincial Cottage Industries Boards with adequate funds should be set up. Adequate number of establishments for the manufacture and supply of necessary tools for cottage industries and for agriculture should be organised. The respective spheres of production for cottage, medium and large-scale industries should be decided.

**PROHIBITION AND ZAMINDARIS** :—The Committee do not like that schemes of prohibition should be stopped or postponed. They have moral and political implications which may not be subordinated to mere economic exigencies.

The same is the case with the schemes for the abolition of zamindaris but compensation should be paid in such a way that considerable amounts of ready cash are not made available for the immediate present.

**MACHINERY FOR IMPLEMENTATION AND CO-ORDINATION OF ECONOMIC POLICY** :— A separate Ministry of Economic Affairs with adequate statistical and other organisations is recommended which should implement and watch the effect of the proposals which may be adopted and should formulate



comprehensive schemes as soon as the danger of inflation has been removed.

‡ THE STANDING ECONOMIC COMMITTEE OF THE ALL INDIA CONGRESS COMMITTEE:—The standing Economic Committee of the A. I. C. C. met on September 3, 1948, in the Prime Minister's Room, Council House, Pandit Jawaharlal Nehru presiding. Except Shri J.C. Kumarappa, all the members attended. The Committee appointed a Sub-Committee consisting of Shri G.L. Nanda, Shri A.P. Choudhry and Shri K. Mitra to review the economic situation in India in the light of the recommendation of the economists, industrialists and labour leaders on inflation and rise of prices and make its suggestion to the Committee.

The following notes were submitted by Shri J.C. Kumarappa, Shri Annada Prasad Choudhry and Shri G.L. Nanda.

\* "NOTE BY SHRI J. C. KUMARAPPA"

Most of the advisers appear to approach the subject from a purely materialistic point and betray a complete lack of social sense. For instance they consider prohibition as a "sentimental" reform rather than as an essential nation building activity.

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‡ This Committee was appointed by the A I C.C. in its session in Bombay in April with a view to consider the implementation of the general programme (Economic Programme adopted by A.I.C.C. in the same session) more especially in regard to priorities and make recommendations from time to time to the Working Committee. The Committee consists of:—

Pandit Jawaharlal Nehru (Chairman) Shri Rafi Ahmed Kidwai, Shri Shankarrao Deo, Prof. N. G. Ranga, Dr. Pattabhi Sitaramayya, Shri Jagjivan Ram, Shri Gulzarilal Nanda, Shri J. C. Kumarappa and Shri Annada Prasad Choudhry.

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\* This note was received after the meeting of the Standing Economic Committee.

We cannot afford to ignore social values. In an emergency the need for it is all the greater. We can afford to do without great many things, but we cannot afford to send some of our fellow-beings into the gutters under the plea of monetary needs.

The Government plans are overlighted on the side of large-scale industries. When we take the production of agriculture and village industries, the output of large-scale industries is infinitesimal. Therefore, if we want to increase the production, even a slight improvement of agriculture and village industries will provide a great lever for banishing inflation. But this factor of production has been almost ignored.

The improvement of the situation lies in producing consumer goods by methods which will bring in quick results. At the present time capital goods are not available and therefore even as a matter of exigency, we have to turn to cottage industries.

The bankers have stated that the purchasing power has gone into the hands of the farmer and the factory worker and others seem to feel that the rural indebtedness has been practically wiped out. These are one-sided truths. Whatever the increased agricultural prices may have meant to the few surplus producers, it has not brought relief to the bulk of the agriculturists who are in the deficit economy. Though the agricultural prices have risen, those of the manufactured articles, which these agriculturists have to buy, had also risen, thus the apparent advantage has been illusive.

One has to remember that the large measure of this inflation is due to the spend-thrift nature of this Government which in itself is an outcome of a fall in a sense of values in the income and expenditure on Governmental affairs. The remedy for this cause of inflation would be to increase the value of money while reducing the quantity that gets into any particular hands. For instance, a man with Rs. 10/- in his hands has a certain value for his tenth rupee while another with one lakh at his disposal would have comparatively little or no value for his last rupee. To meet this differ-

ence in the unitary value of money at margin, it is necessary to cut down the funds available to any Government Department. The simple way of doing this is to decentralise both the revenue collection and dispersal of expenditures. We have to develop a system of local administration which will resuscitate the ancient methods of village republics. Until this is done, fighting inflation will be merely dealing with symptoms and not the disease.

Similarly the use of money must be largely restricted by introduction of certain amount of exchange in commodities in local transactions by the instrumentality of multi-purpose co-operative societies.

These reforms under conditions prevailing to-day may lead to a certain amount of looseness in administration. But we have to face this problem so as to educate the villagers to shoulder responsibility. Centuries of foreign rule have brought us to the present state of a diminished sense of public duties. To build up this civic character of the people, it may take some decades but this is a period which has to be gone through before the people can be expected to take up the responsibilities of Swaraj.

Development of character and discipline is the first prerequisite. In this the Government itself should set the example and turning the search-light inwards, should set its own house in order. Princely salaries to members of Government, Ministers of Provinces and other high dignitaries should all be scaled down ruthlessly to be in consonance with the economic status of the common half starved citizen. Unless it does this it will have no grounds to ask others to help in its effort of setting up the economic structure of the country on a sound basis. The moral appeal given by an example is much greater than all the preaching from the house-tops.

In regard to currency, the suggestions made of withdrawing the money in circulation by issuing Government paper, unless such funds were made available or earmarked for specific purposes,

such as agricultural development, will be a danger if left in the hands of what has proved to be a spendthrift government. Here we may mention that notes in circulation have gone up several crores in the last few months. If our expenses are to be met by the printing press, no attempts at deflation will ever succeed. The sooner we bring the improvident government to base its currency on valuable securities, such as gold and silver bullion the better it will be for the country. It will increase the credit-worthiness of the Government.

As regards production, as we have repeatedly stated, we agree that village and cottage industries should be stepped up and agriculture should be made to produce all that we need in the form of prime necessities. Foreign trade should be restricted to surpluses only and the use of money should be confined to exchange of commodities to comparatively distant places, while local exchange should take place as far as possible through multi-purpose co-operative societies on the basis of barter. Agricultural prices themselves should be fixed not as a derivative from manufactured articles and indices worked up by a consideration of such prices, but they should be calculated independently on the basis of effort and energy put into production of such commodities. Unless this is done, the old slogan that 'agriculture does not pay' will assert itself.

It is time that the Government took a realistic approach to this problem and exerted itself to get out of this financial morass to which its own follies have driven. Unless a well-defined and thought-out economic policy is forth-coming with the necessary courage to implement it, it is futile to hope to remedy evils that face us to-day by mere patch work supported by propaganda."

#### "NOTE BY SHRI ANNADA PRASAD CHAUDHURI"

1. Economies should be effected in all Government Departments including the pay and allowances of the Governors and the Governor-General. With the increase of the Railway Fares and

the frequent use of Airways, the allowances of 1½ fares as travelling allowance to Government servants needs revision. In Bengal, an I.C.S. who is to draw, say Rs. 1,500 according to the Secretary of States Service Rules, draws Rs. 2750 when he is appointed as a Secretary. This difference is great with the Central Government also. In Bihar, the Secretaries get only an allowance of Rs. 500 or so in addition to their service scale pay.

2. The economies effected in the allowances of the Governors and the Governor General and the higher services may not be financially very great. But it will create a moral effect on the public, and the lower grade services for voluntarily foregoing a part of their income to be converted into Savings Certificates.

3. There is necessity of producing more, especially food and cloth. It has been proved that although in village scale manufacture, the output per unit of machinery is less although the income per capita of worker is less than in big scale manufacture, the total output in village industries for the same capital investment is nearly double of the output in big scale operations. Besides, there is difficulty in importing machineries and in building up factories now. Therefore, could not the All India Spinners' Association be requested to go back to their old method of Khadi production for sale at least for tiding over this period of cloth crisis. If necessary, subsidies may be paid, and capital advances may be made as loans. Similarly, the All India Village Industries Association may be helped to stock oil seeds and step up village production of oil. Both the AISA and the AIVIA may organize this production through co-operative societies.

4. Now there is a large sum of money in the rural areas. This can be utilized in improving the housing conditions according to plan, if coal, cement, etc. can be supplied to the villagers. There is large stock of cement available with the manufacturers, as also coal. But these articles cannot be made available for want of transport. Transport should, therefore, be given high priority and funds provided for repairs and replacement of wagons and

Railway stock. It is only by rushing available stock of cement, coal, and similar articles that the purchasing power of the villagers can be utilized for the useful purpose of improving the housing conditions.

5. About three-fourths of the currency notes issued by the vernmet are in circulation. This is abnormal. These notes are probably being hoarded as incomes from profiteering or black-marketing. All notes may be recalled for a new type of notes by a particular date. By this action alone, much of the currency so hoarded may be frozen, and those who will present for exchange will mostly be taxable for the evasion of tax in the past.

6. In big scale industries, the labourers are now paid bonus of three to four months salary. This bonus can be accumulated, and converted into shares in the industry in which they work. If this practice is carried on for 3 or 4 years, the capital invested in that particular industry will be largely increased. Not only will this help in combating inflation but it will at the same day, help the industry in increasing capital for repairs and replacement and expansion and also allow the labourers to be shareholders in the industry.

#### "NOTE BY SHRI GULZARILAL NANDA."

To provide material for discussion, I am jotting down my views regarding the lines of action which might prove feasible as well as effective in tackling the problem of inflation in the country. The obvious approach to the solution is by way of (1) Controlled distribution, (2) maximising the production and supply of essential commodities, (3) reduction of cost of production, (4) bringing down public and private expenditure, i. e., the demand for goods and services, (5) curtailment of active money by (a) immobilising the drawing away the surplus purchasing power, (b) check on the expansion of currency, (6) adequate system of economic intelligence, advice and assistance, (7) creating (a) a feeling that prices will be pressed down by all available means, (b) a sense of

emergency evoking moral energy and effort of the people to take up Government's policy in this behalf

The stress may vary according to as the measures under consideration are (a) immediate, (b) short-term, (c) long-term. In the case of (a) controlled distribution, diminishing the volume of active money and creating an expectation of a fall in the prices, would take precedence over others. With regard to (b) increase of production of essential commodities, reduction in costs and keeping down expenditure would call for greater attention.

Certain precautions may be kept in view (1) No drastic action should be taken capable of provoking reactions which might be difficult to control (2) for any measures to be adopted, there should be available a suitable administrative machinery (3) Reliance should be placed on combined and cumulative effect of many remedies operating on different points rather than on very stringent action in any particular direction (4) No socially retrograde step should be taken under the pressure of a sense of emergency, (5) There is to be no abandonment or postponement of any scheme if on that account future recovery might be retarded.

I wish to emphasise the fact that the situation which confronts us involves a moral problem, and cannot be successfully dealt with on the economic plane only. Every thing possible should be done to rouse the latent moral force of the people to generate a spirit of discipline and sacrifice and to make austerity a patriotic duty. There is a call for wider contacts between the leadership and the people and for some turn of things which should purify the moral atmosphere of the country.

**CONCRETE ACTION** :—The aim is to bring down the wholesale price index by 50 points in the course of the next six months and 100 points by the end of a year.

## 1. CONTROLLED DISTRIBUTION:—

- (1) There should be extensive price and distribution control on cereals, pulses, cloth, kerosene, charcoal and building materials like cement and iron.
- (2) There may be rationing in rural areas but the price control of the aforesaid commodities must be all embracing.
- (3) The price of cotton and coal should also be controlled. Prices of other raw materials entering into production of the essential commodities listed.
- (4) Fair price shops and co-operative retail trade should be extended to the utmost. Special arrangements should be made for provision of agricultural implements, manure etc. at reasonable rates preferably through the agency of cooperative societies.
- (5) A large supply of kerosene, salt, sugar, cattlefeed and manure etc. should be assured for rural areas.
- (6) Procurement from rural areas should be organised immediately. If an adequate quantity is not drawn without on a voluntary basis, a levy should be imposed on a moderate scale to begin with, which may be stiffened as need arises. Differential rates may be paid to induce a larger outflow. (The rates for procurement may vary between the pre-decontrol rate for the purpose and a ceiling which stands half-way between the present price and the floor.)
- (7) Rigorous control of import and export should be introduced and progressive steps should be taken to create a State monopoly of import, which should begin with selected trade. Autonomous corporations should be created for this purpose.
- (8) Imports of non-essential articles should be reduced to the barest minimum and that of all the basic materials and



capital goods necessary for producing essential consumer goods should be enlarged. No essential commodity should be exported unless absolutely un-avoidable.

- (9) Speculation specially in essential commodity should be eliminated.
- (10) Close attention should be given to nationalisation of transport so as to remove bottlenecks and readjust priorities on a sound basis and in a coordinated manner.
- (11) Competition between different departments of Government and the various Governments in the country should be avoided by integrating their schemes and programmes in relation to the available resources of materials and manpower and by co-ordinating the execution of these schemes. This is particularly necessary with regard to the programme of construction involving the use of scarce building materials.
- (12) Machinery should be immediately set up for collecting statistics of prices of a large number of commodities and services in all regions. Continuous study of trends and fluctuations should be maintained for the purpose of interpretation and action. It may take time to create a full organisation, Meanwhile, something should be devised on an Ad Hoc Basis.

## II. INCREASE OF PRODUCTION AND SUPPLY :

(1) Production control to begin with articles under distribution and extended to the entire field of industry should be established on a scientific basis, both in respect of quantity and quality. The purpose would be to maximise the production of selected varieties, secure reduction in costs and cutting down of wastes of all kinds and at all stages. Targets should be fixed in all directions. Full-est information should be obtained and for this purpose returns should be standardised. Arrangement should be made for scrutiny.

The establishments which fall below certain minimum standards should be examined and set right and if necessary, taken over. Those which exceed should be accorded recognition.

(2) The idea of production commodities in industrial establishments has been accepted but has not been seriously pursued. There should be similar committees for regions and industries.

(3) Production control should not be of a negative character only. Production suffers often on account of delays and difficulties which Government can help to remove. Advice and assistance in removing obstructions will go very far in increasing the volume and speeding up the flow of production.

Government agency should be set up to achieve the aforesaid objectives in collaboration with the Production Committee.

(4) The whole system of remuneration of labour can and should be readjusted to create incentives for increased production. Apart from monetary rewards, other forms of recognition should be introduced to stimulate social emulation for raising production. The tripartite organisation set up for implementation of the truce resolution should immediately evolve a suitable scheme.

(5) A ceiling should be put on dividends which may not for the present exceed 6 per cent of capital reserves. This ceiling may be lowered in course of time.

(6) There is delay in implementing terms of the truce resolution. No concrete steps have yet been taken for determining fair rates of wages, profits etc. No headway has been made in respect of industrial housing. Provision of houses for the working class is of the highest importance from the stand point of increased production. It would not be inflationary in its total effect.

(7) By organised effort, appreciable addition to the supply of goods can be secured through cottage industries, but the

attempt would be worth making only if a defined portion of the industrial field is reserved for cottage industries on the lines laid down in the Congress Economic Programme.

### III. CURTAILMENT OF PURCHASING POWER

(1) Compulsory savings should be introduced in respect of personal incomes, including dividends. The rates may be as follows.—

Exemption upto Rs. 60/- per month

2½	percent between	Rs. 60	and	Rs. 200	per month		
5	"	"	"	Rs. 300	and	Rs. 500	"
7½	"	"	"	Rs. 500	and	Rs. 1000	"
10	"	for amounts between	Rs. 1000	&	Rs. 2000	per month	
20	"	"	exceeding	Rs. 2000	-	per month	
20	"	for all incomes accruing from dividends	per month.				

Interest upto 2½% may be paid, the rate of interest decreasing as the amount of savings rises.

(2) Payment out of the declared dividends should be limited to 6 percent of paid up capital or three-fourths of the average post-war period whichever is higher. The remaining amount should be treated as compulsory savings.

(3) Undistributed profits should also be dealt with as compulsory savings and refund of Excess Profit Tax should be held in abeyance. A portion of the saving under both these heads may be released for the purpose of purchase of capital goods to produce essential commodities.

(4) No change in the tax structure and scales should be introduced as an emergency measure now, but the question should be dealt with on merits on the appropriate time.

(5) Compulsory savings may also be introduced in rural

areas and collected with land revenues from landholders whose payment of revenue exceeds a certain minimum.

(6) Fifty percent of the bonuses receivable by workers should be converted into savings certificates.

(7) A vast campaign of national savings should be launched by official as well as non-official agencies. Non-negotiable bonds and savings certificates for 3 and 5 years with higher rates of interest for the later should be issued. The rate of interest for these bonds and certificates should be made more attractive.

(8) Wages should be stabilised along with prices allowing for the rectification of existing disparities and anomalies.

(9) The issue of bearer bonds should be favourably considered.

(10) Treasury bills of 6 months and one year's duration at slightly higher rates of interest should be introduced.

(11) No further expansion of currency should be permitted. The present figure should be deadline for note issue.

The credit resources at the disposal of the investment agencies should be controlled and diverted so as to effect the objectives of an anti-inflation policy.

(12) There should be no increase in the rate of interest for Government borrowing. The bank rate should not be raised.

#### IV REDUCTION OF PUBLIC AND PRIVATE EXPENDITURE

(1) All capital expenditure should be financed from current revenues, and genuine borrowings.

(2) Grants to provinces in respect of expenditure on desirable schemes and programme should not be held up or postponed as

long as it does ~~not become~~ necessary to expand currency on this account.

(3) No expenditure, of social, educational and welfare nature capable of yielding positive and quick results in improving the health, capacity and the character of the people should be postponed. This applies to prohibition also.

All this is subject to over-riding consideration that no expansion of currency occurs on this account.

The Standing Economic Committee re-assembled on September 6 in the Prime Minister's Room, Council House, Pandit Jawahar Lal Nehru presiding. The members considered the notes submitted and took up the note of Shri Gulzarilal Nanda as the basis of discussion and the following conclusions were arrived at :

"The Committee agrees with the lines of approach and the safeguards recommended in the note and attaches special importance to the moral aspect of the question.

The Committee has examined the order of importance of the suggestion for concrete action, as arranged under the following four heads:—(1) Controlled Distribution, (2) Increase of production and supply, (3) Curtailment of Purchasing Power and (4) Reduction of Public Expenditure.

I. In respect of Controlled Distribution, the Committee looks upon item Nos. 1, 2, 4 and 6 covering the question of price control, rationing, fair price shops and procurement as of first grade importance. Regarding item No. 6 the question of the rate to be paid for procurement was left open. The next in importance are item Nos. 7 and 12, i.e. the control of import and export trade and setting up of machinery for the continuous study of price trends and fluctuations. The Committee agrees with the other recommendations under this head.

II. With regard to increase of production and supply the

Committee attaches the greatest importance to fixation of targets under item No. 1 and regards item No. 4, 5 and 6 i.e. the question of remuneration of labour, dividends and implementation of the term of Truce Resolution as being next in order of importance. Under item No. 5 the Committee is further of opinion that the question of fixing a ceiling should be treated as an emergency step and the actual rate should be decided by the Government after consideration of relevant facts and statistics. The Committee agrees with the other recommendation under this head.

III. With regard to curtailment of purchasing power the Committee agrees with the proposal of stabilising wages under item Nos. 1, 2, 3, 5 and 6 voluntary saving under item No. 7. The Committee believes that along with an intensive drive for saving a total stop to any expansion of currency is of the highest importance in bringing down the price levels.

The Committee agrees to the proposal of stabilising wages under Item No. 2, subject to the condition that a ceiling is also fixed for dividends and other measures to bring down prices are put into operation.

As recommended in Item Nos. 4 and 12 there should be no change in the taxation policy for the present and also in the rate of interest and bank rate.

The Committee considered the proposal in favour of issue of Bearer bonds in item No. 9 and felt that no immediate step should be taken but the possibility in this direction may be explored.

IV. The Committee agrees with the recommendations regarding, capital expenditure, grants and expenditure on welfare schemes.

#### ANTI-INFLATION POLICY OF THE GOVERNMENT OF INDIA

The Government declared its policy in the following communique:—

The Government of India have had under active consideration for some time the measures to be taken to combat the threat of growing inflation, the most significant indication of which has been the continuous rise in prices during recent months. They have had the benefit of consultation with Provincial and State ministers, economists and representatives of industry and labour. After a careful consideration of the problem in all its aspects they have decided to take certain immediate steps to improve the position.

The Government's policy in dealing with this problem is dictated by certain broad considerations. The first is to take all possible steps to keep the Government expenditure as low as possible consistent with efficiency, and to increase revenue by all available means. The second is to make a concerted effort immediately to ensure that there is no further rise in prices and the cost of living. The third is so to order future policy as to secure, in the shortest possible time, a progressive reduction in prices to reasonable levels and the supply of an increasing volume of goods and services. Lastly, wherever possible, every endeavour should be made to curtail the purchasing power in the hands of the community and to prevent any addition thereto.

In the field of Government expenditure it has been decided that the budgetary gap between revenue and expenditure this year should be reduced as far as possible both by the Provinces and the Centre and that for next year every effort should be made to provide surplus budgets. All avoidable expenditure will forthwith be postponed and all economies consistent with the maintenance of efficient administration will be enforced. It is not the Government's intention to hold up development but in the present crisis it is absolutely vital to avoid all unproductive expenditure.

A Committee of the Cabinet has been set up to carry out an urgent review of all development plans, both Central and Provincial, with a view to determining the relative priority of accepted schemes so that expenditure on such of them as are not productive

or could be postponed or slowed down, without detriment to the national welfare, might be deferred or curtailed.

Provincial Governments have also been warned that in present circumstances they can expect no financial assistance from the centre in the implementation of their plans for the abolition of zamindari or for prohibition, and that in trying to finance the cost of these schemes they should see that the Centre's borrowing programme is not affected. Provincial Governments are also being advised to strengthen their finances by the levy of an agricultural income-tax where it is not now levied. The progress of the bill for levying an Estate Duty, the entire proceeds of which will go to the provinces and which is now before the Central Legislature, will also be expedited.

As regards prices, the public are aware that the policy of decontrol adopted last December has recently been revised, and the revised policy regarding control of food grains and textiles has been announced. The Government hope to secure by the revised policy an equitable distribution of food grains and cloth at reasonable prices well below the existing levels. When the revised policy comes into full operation there should be a marked decline in the present level of prices. The Govt. have also under consideration the question of securing a reduction in the price of sugar and a better distribution of other essential commodities like kerosene, iron, steel and cement and they hope to be in a position shortly to announce their policy.

One of the main causes of the present crisis is the existence in the hands of large sections of the community of purchasing power far in excess of the available supply of goods resulting in a progressive increase in prices. The position will naturally improve if the public invest more in Government loans and in savings schemes. In order to stimulate investments the Government propose, in co-operation with the Provincial Governments and States, to intensify the campaign for small savings. They have



also decided to afford wider facilities for investments by the small investor in post offices. The maximum permissible limit for investments in postal savings banks will be raised from Rs. 5,000 to Rs. 10,000 and in National Savings Certificates from Rs. 15,000 to 25,000. The Government have also decided to issue Treasury Deposit Receipts on favourable terms for six, nine and twelve months to cater for institutional investors seeking short term investments and details will be announced shortly by the Reserve Bank.

In the field of industrial production, the Government have come to the conclusion that in the present circumstances some special steps should be taken to stimulate production, and they have, therefore, decided to grant the following concessions. First, the present rules regulating allowance of depreciation on plant and machinery for income tax purposes will be liberalized. Secondly, new industrial undertakings will be exempted from income-tax for a specified period. Thirdly, raw materials and plant and machinery imported into the country for industrial purposes will be granted a relief in respect of customs duty to the extent that this may be practicable without injury to Indian manufacturers of similar goods. Details of the concessions will be published shortly.

The Government attach the utmost importance to increasing the financial resources available for industrial development and at the same time preventing any addition to existing purchasing power, as an essential preliminary to further measures to check inflation. As a first step in this direction some form of limitation of dividends is necessary and it has been decided that for public companies the amount distributed as dividend should not exceed the average of the two years ending March 31, 1948, or six percent on paid-up capital whichever is higher.

It has also been decided to postpone the repayment of the Excess Profits Tax deposits and of refundable E. P. T. for a

further period of three years. Refunds will, however, be allowed for financing purchases of capital equipment. The Government also propose to take action to secure in consultation with the Reserve Bank to regulate the grant of advances by banks should be utilized to prevent speculation in commodities.

The Government are convinced of the imperative need for uniformity in legislation regarding industrial disputes and its application. Divergent policies and unco-ordinated action in this matter can result in embarrassing repercussions on the economy of the country at the present juncture. Alongside, therefore, of the Government's declared policy in this matter, they intend to take measures by legislation and otherwise to ensure that uniform principles will be adopted, under the overall control of the Central Government, in the reference of disputes to adjudication, and the provision for the review of awards by a statutory authority.

The Government of India trust that the measures now announced will reassure the public and restore a spirit of confidence in all sections of the community. They have under consideration certain other measures on which they hope to arrive at an early decision and which it is expected will go far towards conserving this spirit.

## MEASURES TO IMPLEMENT THE ANTI-INFLATION POLICY

Measures to implement the Anti-Inflation Policy of the Government of India have been announced in the following communique and ordinances.

In the Press Communique issued on October 4, the Government of India announced their intention to grant certain concessions to industry in order to stimulate production, and it was mentioned that the details of these concessions would be announced shortly. The Government have since worked out the details of these concessions, and they are now published for the information of the public.

The rules regulating the allowance of depreciation on plant and machinery for income-tax purposes are being liberalized. Commencing with the assessment for the year 1948-49, depreciation will be allowed on new buildings, plant and machinery set up on or after April 1, 1948, at double the existing rate for the first five years and thereafter at the prescribed rate, subject to the condition that the total amount of depreciation does not exceed the original cost of the assets. For factories working on triple shift, additional allowances will also be given up to a maximum of cent per cent of the normal.

In order to promote the installation of new machinery, it has been decided to give a further concession. If after a period of five years the price of machinery falls below the original cost, the difference between the writtendown value of the asset and the corresponding value at the reduced price will be allowed as additional depreciation.

For new industrial undertakings of specified categories which commence production in India within a period of three years from April 1, 1948, exemption of income-tax will be allowed for a period of five years on the profits up to a limit of 6 per cent per annum of the capital employed in the undertaking. If in any particular case the period of three years within which production should commence proves inadequate, Government propose to consider the question of extending it at the appropriate time.

Government also announced their intention of granting some relief in respect of customs duty on raw materials and plant and machinery to the extent to which this can be done without injury to Indian manufacturers of similar goods. It has been decided to reduce the present import duty of 10 per cent on plant and machinery to 5 percent, except in the case of certain items where it is proposed either to levy a protective duty or to refer the matter to the Tariff Board. The reduction will apply to all items of machinery in the tariff except electric motors, belting and steel belt lacing, grinding wheels and seg-

ments and certain items of textile machinery, namely, spinning rings, wire, healds, pickers and hobbings.

As regards industrial raw materials, the entire duty on kraft paper, emery and synthetic grains used by the manufacturers of coated abrasives will be refunded. The import duty on cotton yarn will be abolished and the duty on rough lens blocks wrought optical glass in blocks moulds and sheaths and spectacle crown sheet glass will be reduced from 30 per cent ad valorem to 20 per cent ad valorem. The existing duties on iron and steel scrap ball clay and graphite electrodes will be abolished. The possibility of reducing the duty on certain other items is under examination.

With regard to the scheme for the limitation of the dividends of public companies, details are being worked out and an ordinance amending the Indian Companies Act and embodying these decisions will be issued in the course of next week. It is Government's intention to limit the present scheme in the first instance to a period of two years from the date of the Ordinance.

Legislation to implement the decisions relating to income-tax reliefs will be undertaken in the ensuing budget session of the Legislature. The orders giving effect to the proposed changes in the customs duty on raw materials and plant and machinery have been issued under Section 23 of the Sea Customs Act.

The following is the text of Ordinance No. XXIX of 1949, published in "Gazette of India Extraordinary," dated the 28th October, 1948:—

Whereas an emergency has arisen which makes it necessary to limit the dividends which may be paid by public companies;

Now, therefore, in exercise of the powers conferred by section 42 of the Government of India Act, 1935 (26 Geo.5, c.2), the Governor-General is pleased to make and promulgate the following Ordinance:—

## PRELIMINARY

### 1. Short title, extent and commencement:—

- (1) This Ordinance may be called the Public Companies Limitation of Dividends) Ordinance, 1948.
- (2) It extends to all the Provinces of India, and also to every Acceding State to the extent to which the Dominion Legislature has power to make laws for that State as respects the matters dealt with in this Ordinance.
- (3) It shall come into force at once.

### 2. Definitions:—In this Ordinance, unless there is anything repugnant in the subject or context,—

- (a) "Companies Act" means the Indian Companies Act, 1913 (VII of 1913);
- (b) "Company" means a public company as defined in clause (13A) of section 2 of the companies Act and includes—
  - (i) the Imperial Bank of India constituted under the Imperial Bank of India Act, 1920 (XLVII of 1920);
  - (ii) any trading, banking, insurance or finance corporation constituted by or under any other law in force in India, provided that such corporation, if it has been registered as a company under Companies Act would not have been a "private company" within the meaning of that Act; and
  - (iii) any other incorporated body which the Central Government may, by general or special order, declare to be a public company for the purposes of this Ordinance, but does not include a co-operative

society registered or deemed to be registered under the Co-operative Societies Act, 1912 (II of 1912), or any other law relating to co-operative societies in force for the time being in any part of India;

- c) "financial year" means the year commencing on the 1st day of April

### LIMITATION OF DIVIDENDS

3. Dividends not to exceed certain limits:—No company shall after the commencement of this Ordinance, distribute as dividend during any financial year, any sum which exceeds, or which, when taken with any sum already distributed as dividend during the same year whether before or after the commencement of this Ordinance, will exceed—

- (a) six per cent of the paid-up capital of the company as on the 1st day of the period in respect of which the dividend is distributed, after deducting from such capital all amounts attributable to the capitalisation, on or after the 1st day of April, 1946, of one or more of the following, namely, reserves, profits and appreciation of assets, or
- (b) the average annual dividend of the company, determined in the manner specified in sections 5 to 7, whichever is higher.

4. Limit of six per cent to be exclusive of income tax paid by company:—The limit of six per cent, specified in clause (a) of section 3 shall be applied to the amount of dividend distributed by the company among its shareholders, payments made by the company by way of income-tax being ignored.

5. Dividends and periods to be taken into account for determining average annual dividend: The average annual dividend referred to in clause (b) of section 3 shall be determined with reference to—

(a) the total of the dividends distributed by such company (otherwise than by way of bonus shares) during the period of two years commencing on the 1st day of April, 1946, and ending with the 31st day of March, 1948 and

(b) the total of the periods in respect of which each such dividend has been distributed, no period however being counted more than once ;

Provided that where an interim dividend for any period has been distributed before the 1st day of April, 1946, and a final dividend has been distributed in respect of the same period on or after that date but on or before the 31st day of March, 1948 such interim dividend shall be added to the total of the dividends referred to in clause (a) :

Provided further that where an interim dividend for any period has been distributed on or after the 1st day of April, 1946 and on or before the 31st day of March, 1948, and a final dividend has been or is distributed in respect of the same period after that latter date, then-

(i) if the final dividend was distributed before the 5th day of October, 1948, it shall be added to the total of the dividends referred to in clause (a);

(ii) if the final dividend was or is distributed on or after the 5th day of October, 1948, the interim dividend and the period in respect of which it was distributed shall not be taken into account for the purpose of this section; but it shall be open to the company to claim that the interim dividend (but not the final dividend) shall be added to the total of the dividends referred to in clause (a), in which case the period in respect of which such interim dividend was distributed shall be taken into account for the purpose of clause (b).

Date of distribution of dividend:—For the purposes of this Ordinance, a dividend shall be deemed to have been distributed by a company on the date on which the shareholders or their legal representatives have a right to receive it from the company, whether or not it has been actually paid.

7. Provision for increase or reduction in paid-up capital—

(1) (a) Where, subsequent to the distribution by a company of any dividend which has to be taken into account for the purposes of clause (b) of section 3, its paid-up capital is increased by any amounts actually paid in cash, or

(b) where, before the distribution of any such dividend, the paid-up capital of a company is increased by any amounts actually paid in cash, but the amounts so paid are entitled to the benefit of such dividend, and every prior dividend which has to be taken into account for the purposes aforesaid, shall be deemed to have been augmented—

(i) pro rata, if the increase took place before the commencement of this Ordinance; and

(ii) by a sum equal to six per centum per annum of the amounts paid in cash as aforesaid, if the increase took place after the Commencement of this Ordinance.

(2) (a) Where subsequent to the distribution by a company of any dividend which has to be taken into account for the purposes of clause (b) of section 3, its paid-up capital is reduced, or

(b) where, before the distribution of any such dividend, the paid-up capital of a company is reduced, but the whole of the capital as it stood before such reduction is entitled to the benefit of such dividend, and every prior dividend and which has to be taken into account for the purpose



sforesaid, shall be deemed to have been diminished pro rata.

"The limitation of dividends for new concerns at 6% and limitation of dividends for established concerns at the average of the last two years profits ending March 1949 might lead to the elimination of the firms which are recently established which may be regarded as "representative firms—from effective competition with the established concerns. It is not unlikely that the elimination of such competition might lead to creation of monopoly conditions and it would not be anti-inflationary in character because it would not reduce the level of prices. On the contrary it may raise the level of prices."

### PREFERENCE SHARES

8. Special provision for preference shares:—Nothing contained in this ordinance shall be deemed to limit in any way the dividend payable on preference shares issued and subscribed for, before the commencement of this Ordinance.

9. Prohibition of issue of preference at more than six per cent:—No company shall after the commencement of this Ordinance, issue preference shares carrying a right to a dividend at a rate exceeding six per centum per annum.

### MISCELLANEOUS

10. Power to make rules:—

- (1) The Central Government may, by notification in the Official Gazette, make rules to carry out the purposes of this Ordinance.
- (2) In particular and without prejudice to the generality of the foregoing power, such rules may provide for—
  - (i) the adaptation of the provisions of this Ordinance

with a view to their application to all or any of the bodies declared to be public companies under sub-clause (iii) of clause (b) of section 2;

- (ii) the prevention of the evasion of the provisions of this Ordinance, and the removal of difficulties in giving effect thereto,

11. Power to make exemptions, etc.—The Central Government may, by notification in the Official Gazette, exempt any company or class of companies from all or any of the provisions of this Ordinance, or make any modification in the application of the said provisions to any company or class of companies

12. Penalty.— Any director, managing agent, manager or other officer or employee of a company who contravenes or attempts to contravene, any of the provisions relating to the distribution of dividends, or issue of preference shares contained in this Ordinance or in any rule, notification or order issued thereunder, shall be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

In their press communiques issued on October 4 and October, 22, 1948, the Government of India announced their policy indicating the measures to be taken to combat inflation and steps proposed to stimulate industrial production.

One of the most important measures that was envisaged was to increase the financial resources available for industrial development and at the same time to absorb surplus purchasing power.

Heavier taxation of luxury goods is a step which will achieve both the above objectives. The Government have promulgated an ordinance giving effect immediately on certain increases in the import tariff.

The main items affected are articles of luxury consumption such as ale, beer, brandy, whisky and other spirituous liquors,

tobacco, both manufactured and unmanufactured, cigars and cigarettes and a number of miscellaneous articles like gold plated or silver plated ware, toys and games requisites, etc. for which the existing import duty will be increased by about 25 per cent ad valorem.

The overall surcharge at present levied on certain other luxury items like fabrics of silk and art silk, particularly textiles containing 50 per cent or more of either of these materials, will be increased from one-fifth to half involving a net ad valorem increase of 25 per cent over the existing rates.

The Government also consider that the import duty on motor cars and taxi cabs could stand an increase. The standard and preferential rates of 50 and 42½ percent ad valorem have accordingly been increased to 60 and 50 per cent respectively. Having regard, however, to general transport necessities, the duty on other motor vehicles like motorcycles, omnibuses and transport vehicles will remain unaffected.

In consonance with the anti-inflation policy already enunciated, the Government will place on the Open General Licence, which is applicable to soft currency countries, such of the above mentioned items regard to which restriction on imports are still in force.

Representations have been made recently that the export duties on cotton textiles and export duties on oils and oil-seed particularly castor oil and castor seed, have been acting detrimentally to the interests of our export trade. The Government after examining the matter in all its aspects, and as a necessary measure of relief to our industry and trade, have decided finally to reduce the export duty on cotton textiles from 25 per cent ad valorem to 10 per cent ad valorem and to abolish with immediate effect the export duty on castor oil and castor seed, which commodities alone in their opinion, merit this concession.

## ANTI-INFLATION POLICY REVIEWED:

Note of Shri K. Mitra, Secretary, Economic & Political Research Department A. I. C. C.

The following note reviewing the Government of India's Anti-Inflation Policy and the measures to implement the policy was addressed by Shri K. Mitra, Secretary, Economic and Political Research Department to the members of the Standing Economic Committee on October 21, 1948.

"The communique of the Finance Ministry announcing Govt. anti-inflationary measures are immediately steps to improve the position. The Government have under consideration certain other measures on which they hope to arrive at an early decision and which, it is expected will go far towards conserving this spirit.

The view of this, final judgment on the Government's anti-inflationary policy, as a whole, must perforce be suspended. It is, however, necessary to refer to the decision already taken and to evaluate it so that the further measures or the rules to be framed to implement the present decision may fill up the gaps in the anti-inflation policy.

The following are the fundamental bases of the proposals:—

1. "To take all possible steps to keep the Government expenditure as low as possible consistent with efficiency and to increase revenue by all available means."

2. "To make a concerted effort immediately to ensure that there is no further rise in prices and the cost of living."

3. "To order future policy so as to secure in the shortest possible time progressive reduction in prices to reasonable levels and the supply of an increasing volume of goods and services" and

4. "To curtail the purchasing power in the hands of the

community and to prevent any further addition hitherto.

Before coming to a decision the Government had the benefit of consultation with provincial and State Ministers, Economists and representatives of Industry and labour. It may be noted that the Government declaration has received the unanimous approval of the Industrialists, the stock-exchange at Bombay and Calcutta responded well. Tata Deferred jumped from Rs.1495 to Rs-1,520. There is nothing wrong in the favourable reaction of the industrialists. As ultimately this 'crisis' has to be resolved by increased production, restoration of the confidence of the industrialists is one of the keys to this economic impasse. But it is only one of the many keys.

As a matter of fact the Government's policy statement gives the impression of dealing with the symptoms rather than the causes of the economic crisis. The actual measures suggested in the Government declaration fall far short of the minimum requirements of the emergency.

#### BALANCED OR SURPLUS BUDGETS:—

"In the field of Government expenditure the budgetary gap between revenue and expenditure figures this year should be reduced as far as possible both by the provinces and the Centre and for the next year every effort should be made to provide surplus budgets."

By way of an automatic check the economists, the sub-committee of the Legislature Party and the Standing Economic Committee that there should be a ceiling to the issue of notes by the Reserve Bank. The contention that acceptance of such a ceiling may have to be violated more often than not due to frequent unforeseen expenditure on a large-scale has really no strong foundation. We do not plan on the assumption that earthquakes, famines and big-scale military operations are normal occurrences

It has been decided that "all avoidable expenditure will forth-

with be postponed and all economies consistent with efficient administration will be enforced."

Economy in Government expenditure is an ideal to which professions of devotion are as quick and spontaneous as ultimate defections are inevitable. Shri J. C. Kumarappa writes in a recent issue of Gram Udyog Patrika thus: "During the last one year the Government expenses have gone up by nearly 60 crores. These are largely to be found in the Departments of Information and Broadcasting, External Affairs, Aviation and Road Building." Government Departments are crowded with recent appointments and there can be no reasonable doubt that widespread retrenchment both here and in the Provinces is possible. A vested interest is not less vested because it resides safely within the Government's breast. Some disquieting press reports about inadequate co-operation of Government Departments to the Central Economic Committee are responsible for such an apprehension that ultimately the axe of economy would be blunted by the phrases in the Government declaration—"avoidable expenditure" and "consistent with the maintenance of efficient administration."

The need of the hour is not mere economy but austerity and quality of sacrifice. A Committee of the Cabinet will determine the relative priority of scheme of development with a view to postponing or allowing down expenditure on schemes which are not productive and which could be postponed without difficulty. While it is essential that the Government should be exorcised of the Tennessee Valley Authority mentality, greatest caution is needed to attain in regard to developmental expenditure, a proper sense of proportion between the long term values and the values of the near view.

Should not the princely salaries of the Government officials be scaled down and the expenses on account of hundred and one missions abroad be ruthlessly stopped before the welfare sche-

ness which are really investments in human materials, are taxed by this Cabinet Committee?

In fact, more drastic steps may be required to curtail expenditure and avenues for more revenue other than those suggested in the statement may have to be tapped, if the goal envisaged in the statement, of surplus budgets from next year, is to be reached. Quite contrary to the advice of the economists the Government have not sought any remedy in taxation except Agricultural Income Tax and an Estate Duty Bill which no one in principle could oppose. Both these sources of revenue would, however, be provincial sources. As an anti-inflationary measure Agricultural Income Tax with such high exemption limit as Rs. 3,000 would touch very few agriculturist producers. A surcharge on land revenue of rent paid by the agriculturist who do not pay agricultural income-tax but have holdings bigger than economic holdings, is an urgent necessity.

The suggestion of the economists and the Sub-committee of the Legislature Party that Income Tax Investigation Commission should be armed with greater powers and its work should be expedited may well be considered by the Government. This is necessary to overcome the "crisis in confidence". Income-tax assessment method should immediately be amended so that many crores of rupees of taxes due may not remain uncollected.

### WARNING TO PROVINCES—ABOLITION OF ZAMINDARI AND PROHIBITION :

"Provincial Governments have also been warned that in present circumstances they can expect no financial assistance from the Centre in the implementation of their plans for the abolition of zamindaris or for Prohibition and that in trying to finance the cost of these schemes they should see that the Centre's borrowing programme is not affected."

Disappointment is expressed that the attitude of the Central

Government with regard to Zamindari Abolition and Prohibition in the Provinces is one of warning instead of taking them into confidences and evolving by mutual agreement a way out. It is doubtful if the last Finance Ministers' conference could really resolve the Stalemate Specially in the matter of Zamindari Abolition.

Wisdom suggests that economic sails should be trimmed to the political climate. Abolition of Zamindari and Prohibition are the very corner stones of the social and economic philosophy of the Congress Party and to keep up the stock of the Party the Government should strain every nerve to implement these two pledges as far as possible. The 25-man Congress Legislature Party sub-committee rightly recommended, "they have moral and political implications, which cannot be subordinated to mere economic expediencies".

So far as Zamindari Abolition is concerned, this period of high prices and low incidence of rent is the most opportune moment of turning the State, and the rent collector directly from the tenants. Besides, if the Zamindars are entitled to draw only interest or long-dated non-negotiable bonds (which may be negotiable under special conditions), Abolition of Zamindari would be definitely an anti-inflationary measure due to the following reasons:—

1. Zamindars would enjoy a very small percentage of their present income,
2. A substantial part of rent collection may be spent on minor irrigation works and other agricultural improvements which would increase production of food and raw materials and the taxable capacity of the agriculturist.

If the Zamindars want, they may use these bonds as capital for starting industries under a State-sponsored Industrial Corporation. Thus the bonds may be given limited negotiability without disturbing the money market. This would solve the lega



difficulty, if any, that arises in paying compensation in non-negotiable bonds. It may also be considered if Sec. 299 of Government of India Act 1935 and Sec. 24 of the Draft Constitution should be so amended that there is no difficulty in paying compensation through long-dated non-negotiable non-transferable bonds.

In some provinces where the Zamindari Abolition Bill has not yet been framed or the Bill has not made much progress in the legislature the Bill may be amended to provide only State management during this period of emergency.

As regards Prohibition, in some provinces abolition of Zamindari would bring in some addition to provincial income. In others new sources of income like sales tax in U.P. (the reported income on this account this year being near about Rs. 1 crore) may be found. Besides, the fiscal and economic implications of Prohibition require sympathetic investigation. Prohibition need not be a mere social but economic reform. It is not improbable that on account of prohibition Government's own receipts from entertainment tax may improve substantially.\* Instead of postponing the introduction of the scheme of Prohibition the tempo of progress may be slowed down so that the loss of revenue may be made up by some fresh income, may be sales tax or surcharge on land revenue or income out of share of Estate Duty.

### MOPPING UP SURPLUS PURCHASING POWER

Limitation of Dividend: It has been decided that in the case of public companies the amount distributed as dividends should not exceed the average for the two years ending with March, 1948 or 6% on paid up Capital, whichever is higher.

The table, below, gives an indication as to the maximum level of dividend which some of the well-known companies mentioned therein could declare in 1946 and 1947.\*

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Companies	Amount distributed as dividend			Rate per cent on capital		Paid-up
	1946	1947	Coiling	1946	1947	Coiling
			dropped.			propose

### COTTON TEXTILES—

Bombay Dyeing	16.31	15.06	15.68	26	12	12.5
Central India	2.81	5.16	4.00	6	11	8.5
Finlay	6.00	6.00	6.00	15	15	15.0
Gokak	7.03	6.64	6.00	18	17	17.5
Kohinoor	11.25	9.00	10.12	25	18	10.1
New Great	2.62	1.50	2.06	17	10	6.9
Simplex	4.20	4.20	4.20	30	20	20.0
Swadeshi	8.10	6.60	7.35	27	22	12.2

### JUTE INDUSTRY:—

Anglo India	1.07	7.38	9.22	22.5	15	18.7
Birla	7.60	7.60	7.60	25.0	25	25.0
Champdany	7.10	5.32	6.21	12.0	9	10.6
Kamarhatty	8.40	8.40	8.40	35.0	35	19.5
Kanknarrah	9.00	9.00	9.00	30	30	Nil

### COAL MINING:—

Bengal Coal	14.00	13.05	13.08	32.0	27.0	27.6
Burrakur	7.09	3.04	5.07	17.5	7.5	12.5
Dhemo Main	1.00	1.02	1.01	6.25	7.5	6.9

### IRON AND STEEL:—

Steel Corporation	15.72	Nil	7.86	5.0	Nil	6.0
Ordinary	36.00	49.00	57.05	24	18.7	22.0
Deferred	49.07	31.07	40.07	336	216	280
Tisco						

### TEA PLANTATIONS:—

Dhunseri	.17	.35	.26	7.5	15.0	11.0
Hattikhira	1.57	1.80	1.68	20.0	17.5	16.7
New Dooari	3.00	3.20	3.10	150.0	40.0	39.0

Companies	amount distributed as dividend.			percent Rate on Capital.		
	1945	1947	Ceiling proposed.	1945	1947	paid-up ceiling proposed
<b>BANKS:</b>						
Imperial	78.75	78.75	78.75	14.0	14.0	14.0
Central	15.70	43.99	29.9	6.0	14.0	9.5
India	21.0	21.0	21.0	14.0	14	10.5
<b>MISCELLANEOUS:—</b>						
Air India		9.0	9.0		6.0	6.0
Associated Cements	55.39	39.65	47.5	7.0	5.0	5.5
Belapur Sugar	6.76	9.02	7.9	18.0	24.0	17.0
Kanpur Sugar	2.25	2.25	2.25	15.0	15.0	15.0
Bengal Paper	4.05	2.96	3.4	45.0	33.0	8.0
Dnnlop Rubber	20.0	20.0	20.0	40.0	40.0	40.0
Hindustan Sugar	1.5	1.5	1.5	15.0	6	5.3
Sone Valley Cement	3.0	3.0	3.0	4.0	4.0	4.0
Titaghur Paper	10.5	15.75	13.1	17.5	20	13.7
Tata Oil	5.60	56.0	5.60	8	8	8.0
Wimco	18.48	18.48	18.48	12	12	12.0

\* Eastern Economist, October, 29, 1948.

The Government announcement does not clearly state whether such bonuses as are included in the dividends of Gokak and Wimcos in 1947 should be taken into account for calculating the average of the past two years. Besides it is not made clear whether dividends which are to be taken as the basis of calculation of the average of two years ended March 30, 1948 should be dividends which are declared during that period or dividends which were paid in respect of profits earned during that period. Some companies have not yet announced their dividends for the half year or year ended 31 March, 1948 and such concern would appear to have a clear advantage over others by reason of being able to make a higher distribution than they would have.

done if the Government's intentions had not been announced. It is presumed from the statement that companies which have come into existence since 1st April 1946 and which have paid only one dividend during the two years in question will be restricted to distribution of 6% per annum in the future. Some companies not having been in existence sufficiently long paid only one dividend of 10% during the period 1st April 1946 to 31st March, 1948, and can not therefore average future distributions over two years. It is not clear whether the dividends of these Companies should be restricted to 6% only.

It may also be noted that while the Anti Inflation communique mentions 6% on paid-up capital as one of the ceilings, the Committee on Profit-sharing has recommended 6% on paid-up capital and reserves held for business purposes would be a fair return to the capital

The crux of the matter, however, lies in the fact that 6% would operate as ceiling dividend only for comparatively new concerns but for established companies this would work as guaranteed floor. Besides, the 6% ceiling of dividends would discourage new concerns which have been assured elsewhere in the declaration a number of facilities like exemption from income-tax for five years, relief from payment of customs duties in respect of purchase of raw materials etc.

By limiting dividends to the average annual amounts distributed in cash in the two years ended March 1948, the spending power of those who have already earned their dividends remain in tact and since any profit not distributed will remain with the industry and be available for its development the pressure of undistributed profits on prices continues. If the phrase—"in calculating the average amount distributed in the past two years, adjustments will be made for any alteration in the paid-up capital"—means that dividends will be paid on watered-down capital at the same percentage as before than spending power of existing dividends

earnings will increase. Besides leaving the price structure and industrial output unaffected the dividend limitation ordinance may cause fresh speculation in old company shares.

It is stated that the fundamental policy of the Government is to increase the financial resources available for industrial development and at the same time for preventing additions to existing purchasing power. Unless a detailed investigation into the amounts of dividends declared by various companies during the year 1946-48 (reference Standing Economic Committee of the A.I.C.C.'s recommendation in this connection) be taken up by the Government and proper adjustment is made in the policy, it is difficult to say how far the present ordinance limiting the distribution of dividend would implement the fundamental policy of the Government in this direction.

### COMPULSORY SAVING:

The least convincing part of the Government's proposal is the one relating to Savings. The maximum limits for investment in Postal Savings Banks and National Savings Certificates have been raised, but was it because the limits were low that these forms of investment proved unattractive in the past? Treasury Deposit Receipts on favourable terms are offered as new avenues of investment for institutional investors. Would these institutional investors seek such investment in preference to the speculative and inflationary activity to which they are now so well used? Besides, the issue of T. D. R. on favourable rates may create difficulty for the Government's cheap money policy or is the Government wanting to reverse the Cheap money policy and the issue of Treasury Deposit Receipts is the thin end of the wedge?

Surely the task before the Government is not to bring about a pre-conceived ratio between the volume of goods and the volume of circulation but to regain equilibrium at a point at which the economic life can go forward with a new dynamics of its own.

But the taxation and the loan policy of the Government outlined in the present declaration is definitely inadequate to mop up the surplus purchasing power. There has been no drastic provision to sterilise the black money circulating in the economic system. Of course, the Reserve Bank has been empowered to ration credit but little is known how such controls will be operated. The suggestion of Economists and the Legislature Party Sub committee that all banks should be required to hold Government securities to the extent of 25 % of their total demand liabilities is worthy of consideration.

Under the circumstances some form of compulsory savings could be introduced with advantage. Bonuses to workers in factories and employees in offices could be given in the form of cash certificates. Similarly undistributed profits of companies in excess of dividends which are now limited, should be taken generally as compulsory deposits with the Government.

A ceiling to wage like the ceiling of profits and note issue is essential to lowering of prices which will automatically increase the real wages of workers. The Government should give a lead in this matter by stopping all increase of salaries during the period of emergency.

### PRICE CONTROL:

While the general policy under this head is unimpeachable expeditions implementation alone would bring real relief. The control measures should also be both foolproof and knaveproof.

### STEPPING UP PRODUCTION:

It is true that the present crisis is the end product of production-lag. And the incentives to production in the shape of income tax exemption for five years for new concerns and others reliefs are steps in the right direction, yet to produce the desired result such concessions should be linked with a



corresponding responsibility on the individual concern to mop up production according to agreed targets.

It must be noted that every new concern will not impart anti-inflationary character to the production structure. Only those enterprises which produce essential goods and make up the shortage can do so and should be given the special facilities.

In the communique it is stated that the new industrial undertakings of specified categories will be given these facilities. It is not known what is meant by undertakings of specified categories. If it means that undertakings producing essential goods would be given these facilities then the step proposed is anti-inflationary in character.

The provision regarding liberalisation of the allowances of depreciation on plant and machinery for income tax purposes should also be based on the consideration of making up the shortage of essential goods. There is no reason why these facilities should be extended to industries producing luxury goods.

It is rather strange the main source of production namely agriculture and village industries is completely ignored though the economists, the Sub-Committee of the Congress Legislature Party and the Standing Economic Committee of the A. I. C. C. strongly recommended intensification of present efforts to promote production through agriculture and village industries.

What is needed to fight this crisis is to forge a new drive to increase production with a special appeal to the working man in the form of production bonus and perhaps even to the industrialist if the agreed target is exceeded. Expanding production and austerities by all interests should be the two pincers of this great movement to mop up inflation.