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FEDERAL FINANCE IN INDIA

THE GROWTH OF
FEDERAL FINANCE
IN INDIA

BEING A SURVEY OF INDIA'S PUBLIC FINANCES
FROM 1833 TO 1939

BY

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PREFACE

WITH the inauguration of Provincial Autonomy on 1 April 1937, federal finance has become an accomplished fact within British India. This is the final stage of a development that has been going on since 1870. Before 1833, British India was divided into three presidencies, each with its own revenues and jealously maintaining even an army of its own. After 1833, the power of the Government of India grew and financial control came to be concentrated in the 'Supreme' Government at Calcutta. The inconveniences of centralized finance were realized in the decade following the transfer of the government of India to the Crown (1858-68), and as a result, various schemes of decentralization were considered. One of the schemes mooted was federal in character, but this was premature In 1870 Lord Mayo made a beginning in decentralized finance, and it has since developed by successive stages into federal finance

The above subject forms the central theme of the book before us, but it is dealt with as part of the development of financial policy as a whole The growth of the principal revenues as also the trends in expenditure and borrowing policy have been traced in some detail from period to period, and the chief influences that shaped the financial policy of the Government in each period have also been sketched. Special attention has been given to the financing of public works The period between 1920 and 1939 has been treated more fully than the rest In the final chapters are set forth the arrangements for federal finance made in the Government of India Act, 1935, and the financial problems facing the central Government and the provinces at the present time

The material for this work has been drawn mostly from Government papers and other contemporary writings. The annual financial statements, the Administration Reports, the annual Statements of Moral and Material Progress, the Proceedings of Indian Legislatures, Parliamentary Committees and Government Commissions have been freely used. Official correspondence between the various governments has also been consulted, so far as available. Some use has been made of the biographies and private correspondence of the leading administrators of each period. In the nineteenth century, there was a crop of interesting books on India by men who spent their life-time in the service of this country, and in particular the writings of J. B Norton, Sir George Campbell, Sir George Chesney, Sir Charles Trevelyan, Sir Richard Temple, Sir Richard Strachey, Sir John Strachey and Sir H. S. Cunningham have been of great help in the composition of the present treatise. In recent times, such

writings have increased in volume if not perhaps in value, and several Indian writers have also published works on financial subjects. To all these, the present book is indebted. A list of sources utilized is given at the end.

I may perhaps claim some personal acquaintance with the matters dealt with in the last few chapters of the book, having taken part in the discussions which paved the way for the scheme of federal finance contained in the Government of India Act of 1935. Being a Member of one of the provincial Upper Chambers under the new constitution, I have had also opportunities for studying the actual working of Provincial Autonomy.

I must here acknowledge my indebtedness to several persons who have helped me in the preparation of this book. In particular, I have benefited considerably by discussions with Sir Arthur McWatters, I.C.S. (Retd.), Mr K. Anderson of the India Office, Mr C. E. Jones, I.C.S., Mr K. Sanjiva Row, Sirdar K M. Panikkar and Prof Q. Husain Dr D. W Dodwell, I.C.S., has taken great trouble in correcting the proofs. While I express my sincere gratitude to these gentlemen, it must be stated that they are not responsible for the views expressed in this book. The Durbars of several Indian States readily supplied me with their financial statistics, and I am thankful to them for their courtesy. I have also to express my gratitude to Mr N. Sundararama Sastry and Mr N. T. Mathew for drawing up the statistical tables, to Mr B Natarajan for preparing the Index, and to Mr V. Vasudevan and Mr A. Krishnamurthi for other assistance. Mr Mahimainathan and Mr C Rao did a great deal of typing work for me from rather illegible MSS , and I am beholden to them for their labours.

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PART I

THE FINANCIAL SYSTEM BEFORE 1858

CHAPTER I

INTRODUCTORY

§1. *The Nature of Indian Revenue*

THE financial system of a country reflects its general economic condition. Countries like Great Britain and the United States which possess a highly developed economic life raise their revenue chiefly from the incomes accruing from industry and trade, but in more backward countries like India and China whose population is predominantly rural, Governments have to draw on the more meagre income from agriculture. India has always depended mainly on agricultural pursuits, and the revenue from land has been the mainstay of its state fisc; it was supplemented by customs duties and excises, but the burden of these also has fallen largely on the agricultural classes. Hence the proverbial dependence of the Indian Government on the monsoons. In 1909 Sir Guy Fleetwood Wilson, Finance Member, described the Indian budget as 'largely a gamble in rain'.

The Indian financial system has since become less dependent on the monsoon, and Wilson's epigram has no longer the justification it perhaps had in his day. Firstly, agriculture has been made less dependent on rainfall by a systematic development of irrigation works. In 1860 hardly one per cent. of the cultivable land of India was irrigated, but today about 20 per cent. of the land is under irrigation, and failure of crops is much less frequent than formerly. Secondly, the proportion of revenue accruing from agriculture has been falling in recent times. While land revenue receipts have remained more or less stationary, customs and income-tax have grown largely, and the former has taken the first place among the revenue-heads. In 1858, land revenue amounted to Rs. 15 crores, and was responsible for 50 per cent. of the total revenue of India; customs revenue contributed only Rs. 2 crores, and income-tax was not levied. Up to 1885, the revenue from customs and income-tax continued to be very small, and it was considered improper by most persons in authority to raise much revenue by such taxes. We have travelled far since those days. In 1929-30, customs revenue amounted to Rs. 51 crores, and was responsible for about 31 per cent of the total revenue of India, while land revenue came to only Rs. 33·4 crores and was hardly 19 per cent. of the total revenue. Income-tax has also been growing, and contributed about Rs. 17 crores in 1929-30. The following table, in which the different

revenue-heads are expressed in percentages of the total, show clearly how their relative importance has changed

Year	Land Revenue	Opium	Salt	Customs	Excise	Income-tax
1858	50 0	20 0	10 0	7 7	3 0	—
1880	29 5	6 7	9 5	3 3	1 1	0 6
1900	23 2	7 0	7 8	4 3	5 1	1 7
1914	26 0	1 9	4 8	7 7	10 8	2 4
1929	18 8	1 4	3 7	31 2	11 2	9 1

The increase of revenue under customs and income-tax since 1914 is very striking No doubt, this is partly due to the enhancement of rates, but an expansion of trade and industry in the country is the principal cause India is no longer a merely agricultural country, machine industry has made rapid strides in recent years, and India ranks as one of the seven leading industrial countries of the world

Thus the Indian budget is becoming more and more immune from the vagaries of the monsoon, and is 'increasingly becoming a game of skill and foresight'.[1] This is perhaps slightly optimistic If the monsoons have been rid of their worst sting, the fluctuating price-level still makes the Indian Finance Minister's lot unenviable, and he has to walk warily, minding not only the monsoon (which still has its terrors), but also the swing of prices and the trend of trade, in this country and in the rest of the world.

§2. *The Growth of Expenditure*

Whilst the nature and composition of the revenue have changed, the scope and distribution of the expenditure have also undergone a transformation during the last 100 years The expenditure of the Government may be classified broadly under 'security services' and 'social' (or 'development') services The former include defence, law and justice, police, general administration and debt service, while the latter comprise education, public health and public undertakings

Before 1850, nearly the whole of the revenue of British India was spent on the former class of services, and the social services hardly came into the Government's purview There was a small grant for the advancement of learning, but the education of the masses was not recognized as a duty of the state for a long time. The expenditure on medical aid was confined to the maintenance of a few hospitals at Government headquarters. There were indeed some roads, but they were chiefly meant for military purposes;

[1] *India in 1925-6*, p 282

certain tanks and canals were also kept up, as without them revenue would not be forthcoming. The economic development of the country was not the prime concern of the early administrators. It is true that benevolent officers like Sir Thomas Munro and Mountstuart Elphinstone did everything in their power to increase the happiness of the people entrusted to their care, but the Government in those days did not make such benevolence a normal part of their policy.

There were various reasons for this attitude In the first place, the Company had not become, till quite the middle of the nineteenth century, the unquestioned suzerain of the whole subcontinent, and the geography of India is such that no power could feel secure until its dominion extended to the natural frontiers of the country India is geographically a single unit, and so long as two rival powers remained within its boundaries, a sense of insecurity was bound to continue, and self-preservation held as the first law of nature Further, the prime need of the country then was peace and settled government; for the people were tired after a century or more of internal warfare and depredations by rival armies and organized bands of marauders There were within the country criminal tribes that needed curbing and backward classes that needed civilizing There was no homogeneity of race or culture, and no national solidarity existed India was a welter of races and cults and loyalties, and they were not all pacific, nor prepared to cast in their lot with the British, as the events of 1857 demonstrated. In these circumstances, law and order was the prime need of India, and hence its importance in the Company's administrative system

Secondly, in the days of which we speak, the prevailing conception of government in Britain was a rigid individualism which discouraged interference with individual rights, whether in the realm of economics or of politics. *Laissez-faire, laissez-passer* was the gospel ardently preached by the economists of the time, following the lead of Adam Smith and David Ricardo. It found enthusiastic supporters like Jeremy Bentham (1748-1832) in the realms of law and philosophy, and was translated into action by the reform of civil law and by the drastic reduction and eventual abolition of tariffs and preferences. These were the influences that shaped the persons who administered India at the time, and there was nothing to weaken their prejudices.

The Indian conception of government was radically different. In strict theory, a Hindu king was expected to minister to the well-being of his subjects, and well-being was given a most comprehensive connotation in the *Dharma Sastras* It was the king's *duty* to provide not only material, but spiritual well-being. The ideal of *rajadharma* meant a broad paternalism, and nothing was outside its scope. 'The taxes collected from the subjects must go back to them a thousandfold, just as the vapour taken from

the sea comes back to the earth as fertilizing showers.'[1] A similar ideal was marked out for the Mussulman king also. But these lofty ideals were seldom realized. Benevolent rulers took delight in carrying out works of public utility, but the indolent ones squandered their revenue on luxurious living. That there had been several kings of the former type is evident from the wells, tanks, canals and roads made and maintained at great expense in the past, and the vestiges of such works are still to be seen in or around old royal seats Under great monarchs like Asoka, Chandragupta, Harsha and Akbar, such commendable efforts were made, but some of their unworthy successors did not maintain them. A period of great and benevolent kings was followed by a period of indolent weaklings, and this gave the opportunity for provincial governors to become independent and for revenue-farmers to plunder the people It was in such a period of dissolution that the East India Company established its dominion in India, and naturally the Company had no great benevolent traditions to keep up. The provincial satraps from whom it obtained its territories were only interested in collecting revenue and keeping armies for their defence. The tanks and canals maintained by the earlier kings had generally fallen into a state of neglect, and the old ideal of *rajadharma* had become a mere tradition.

Entering into such a heritage, and with no assurance of enjoying that heritage long, it was no wonder that the Company did not interest itself in much beyond keeping order and collecting taxes. However, keeping order was, by itself, a great boon in those troublous days when people lived in perpetual terror of marauders and plunderers. Neither its own tradition at home, nor the example of its predecessors in India encouraged the Company to go beyond these essential functions of government. Nor was it easy to find the revenue for undertaking any benevolent ventures. The Company knew that to enhance its revenue demands was to court trouble A foreign power can become popular only by keeping tax-burdens light and leaving people to their own religious and social usages With great courage, Lord William Bentinck suppressed *sati*, but his successors found it risky to continue such a bold policy consistently Further, the Directors of the Company were shrewd business men and 'kept a strict guard over their money-box'.[2] They looked upon India as a commercial asset, not as a field for administrative experiments or for philanthropic activity It was such common sense that enabled them to hold India for so long and to pass it on to the rule of the Crown in 1858.

[1] Kalidasa's account of King Dileepa in *Raghuvamsa*, Can I, v. 18

Prajānām eva bhootyartham sa tābhyo balim agraheet,
Sahasraguṇam utsraṣṭum ādatte hi rasam ravih.

[2] Sir Charles Trevelyan See *Report of the Select Committee on East India Finance* (abbr. *Select Committee Report*) (1873), pp. 22-3.

§3. *An Experiment in State Socialism*

After 1860, however, this attitude gradually changed The change was due partly to the greater security of the British position in India and partly to the influence of far-sighted administrators like Lord William Bentinck, Lord Dalhousie and James Thomason; humanitarian influences then operating in Europe had also some part in it; but the fundamental cause of the change was the growing recognition that the Government's revenue was dependent on the state of agriculture. In other words, the Government found that they were in the position of a landlord; if the land yielded abundantly, the landlord could easily obtain his rent and could even enhance it; but if the crops failed, he would lose his rent, and in addition would have to maintain the tenants alive so that they might continue to live and work Therefore, the Government were forced not only to secure peace and order but to provide the various facilities needed for agricultural prosperity It was thus that the Government came to open canals and dig tanks, to maintain roads and bridges, to make agricultural experiments, to control pests and plague, and to check usurious moneylending by lending money directly to the ryots. As Sir William Hunter puts it 'The Government of India became an improving proprietor on an enormous scale.' This conception was uppermost in the minds of those British administrators who were themselves landlords at home Lord Mayo wrote. 'The Government of India is not only a Government but the chief landlord. The duties which in England are performed by a good landlord fall in India in a great measure upon the Government.'

It is also significant that this attitude of the Government as landlord was more pronounced in the ryotwari provinces than in the zamindari and permanently settled tracts. Agricultural improvements in the ryotwari provinces would tend to an increase of the Government revenue, but such was not the case in the parts of the country where land revenue was permanently settled. This caused grumblings and heartburnings, but they had little effect.

Even in those parts of the country whose agricultural condition directly affected the public revenues, improvements were generally carried out as the result of some crying evil which called for urgent remedy. Famine was the chief of those evils, and had it not been for its frequent visitations, the Government would have persisted longer in their policy of *laissez-faire*. Between 1860 and 1880, several devastating famines broke out in one part of India or another and caused great suffering and the loss of much revenue. This convinced the Government that a more systematic policy of economic and social improvement was essential in their own interest as well as in the interest of the people. Thus originated the new policy of financing public works by loans; agricultural experiments were undertaken and Departments of

Agriculture were established by the provincial Governments; in order to provide the ryot with credit the old system of *takkavi* was reorganized, and the co-operative movement was started; and to help him against usury, laws were passed for controlling the alienation of land. The Government also took up further responsibilities in connexion with education, medical aid and sanitation. State action spread apace, and the state became the organizer of welfare over an ever-widening field.

The official policy of the Government still continued to be *laissez-faire*, and even those administrators who, like Sir Charles Trevelyan and Sir Bartle Frere, worked hard to increase public welfare were confirmed believers in non-interference. Frere held that the proper duty of the Government was 'to protect all men in the enjoyment of their rights and possessions as long as they do not interfere with the rights and possessions of others, and to remove all obstacles, natural or artificial, to such enjoyment'. But when he was face to face with the realities of famine and misery, Frere became a great believer in improvement, and as Governor of Bombay, actively carried out many schemes of development in that presidency. When he was engaged in such work, one of his children asked him why he was perpetually talking of irrigation, and he replied 'If you had seen men's bones, as I have, lying unburied by the roadside, and on entering a village had found it untenanted by a living person, you would know the reason why'[1] Such were the grim realities that overcame the favourite doctrine of *laissez-faire* in the minds of Indian administrators.

Thus, the state's functions increased greatly in India, and the Government became somewhat like an experiment in state socialism. The quasi-proprietary relation of the Government to land and the wide range of duties which it involved, the state ownership and management of forests and of large commercial undertakings like railways, irrigation works, salt and opium factories, water supply and hydro-electric works; the paternal attitude taken in regard to debt and disease—all these perhaps justify such a view. On the other hand, 'the nervous fear' about altering social and religious customs and the lack of poor relief arrangements in normal times make the Indian Government less paternal than even the individualist states of the West. Notwithstanding this, it is but fair to admit that the Government organized themselves as an agency for economic welfare long before other Governments pursued the same path. To-day, western Governments interfere largely in the economic sphere, owing chiefly to the growth of industrialism; and even the Government of Great Britain have established a system of controls which would not have been tolerated in that country before the Great War. But India attempted this untrodden

[1] J. Martineau, *Life and Correspondence of Sir Bartle Frere* (1895), vol. II, p. 415.

path first, and demonstrated to the world that only the Government could effectively undertake many important functions whose discharge is essential for the welfare of modern communities.

All this involved an increase of expenditure, and a change in its distribution. The expenditure of the British Government in India was only Rs 1·7 crores in 1765 (the year of the *Diwani* grant), but it rose to Rs 28 crores by 1856-7 (the year of the Mutiny). In 1900 the various Governments in India spent Rs 110 crores, and in 1929-30 Rs 226 crores. Leaving aside the pre-Mutiny period for obvious reasons, we may say that during a period of 70 years, 1860-1930, the expenditure of British India multiplied eightfold. From 1900 to 1930, the expenditure doubled itself. In addition to this, local authorities have spent increasing sums from revenue raised by local taxation. In 1885-6, when Lord Ripon left India, the tax-revenue of municipalities and district (and other rural) boards came to only Rs 3½ crores, but by 1935-6 it had increased to Rs 57·43 crores.

The distribution of expenditure has also undergone great changes. Till 1858 nearly the whole revenue was spent on defence, law and order and other security services, but since 1885, and especially since 1900, increasing sums have been spent on 'development' services. In 1857-8 hardly one per cent of the total revenue was spent on education and public health; but in 1930-1 a little over 10 per cent of the revenue was spent on these items. In the table below, expenditure (net) on various items is given for certain years between 1857 and 1930; the figures are in crores of rupees. (See also Statistical Table 6, Appendix F.)

Expenditure (net) on various items in different periods

	1857-8	1901-2	1913-4	1921-2	1930-1	Percentage increase between 1901-2 and 1930-1
Defence	16·7	24·7	29·8	69·8	54·3	119·8
Police	2·6	4·4	7·3	12·8	13·6	209·1
Law and justice		1·4	6·1	7·8	9·0	104·5
General administration[1]	3·0	2·0	3·0	10·3	14·1	605·0
Education	0·2	1·7	4·8	9·0	13·8	711·8
Public health (including medical aid and famine relief)	0·1	2·6	3·5	6·1	6·7	153·8
Agriculture	...	...	..	2·0	3·1	.
Civil works (chargeable to revenue)	3·1	4·2	10·1	12·6	12·9	207·1

[1] Does not include the charges of land revenue collection.

It is clear that lately the social services have expanded much more than the security services; while defence charges increased from Rs. 24·7 crores to Rs 54·3 crores between 1900 and 1930, the expenditure on education increased from Rs. 1·7 crores to Rs. 13·8 crores. The increase under social services was slow up to 1920, but after the Reforms of that year there has been a rather rapid increase in the expenditure on education, public health and agriculture. At the same time the expenditure on defence steadily fell from Rs 87·4 crores in 1920-1 to Rs 45·5 crores in 1936-7 (vide *infra*, pp 436-40)

A clearer idea of the change may be obtained by showing the various items as percentages of total expenditure In the following table both central and provincial expenditure are taken into account

The proportion of various heads to total expenditure

(Percentages)

—	1857-8	1921-2	1930-1
Defence (net)	47 7	32 00	23 50
Law and order .	7·5	11 33	12·20
Education ..	0 6	1 94	6 91
Public health .	0 4	3 33	3 56
Agriculture .	—	1 08	1 66

The results would appear even more creditable if we included the expenditure of the local bodies In 1930-1 the municipalities in British India spent about Rs. 12·5 crores on public health, education and civil works, in the same year, a similar amount was spent by district and local boards also for the same purposes In 1858 these bodies hardly existed

§4. *Financial Authority*

Perhaps the most remarkable changes during the period under survey were in the nature of the financial machinery and in the relationship between the different authorities engaged in financial administration

Before 1772, there were three presidency Governments in India, each administering its own territories and maintaining its own armies, and they were only subject to the control of the Home authorities of the East India Company After that date, two important developments took place; on the one hand, the Government of Great Britain gradually asserted their sovereignty over the Company s territories in India; and on the other, the Government of Bengal were raised to the position of supremacy and were given an increasing authority over the other presidency

Governments. Till the grant of the *Diwani* (1765), the Company was chiefly concerned with its commercial activities, and its territorial possessions were comparatively small. But in 1765 a territory larger and more populous than Great Britain came into the Company's virtual possession, and its servants obtained unexampled opportunities for enriching themselves, which many of them fully utilized. This roused the suspicions of Parliament, and there arose a growing conviction in England that such extensive territories should not be left to the free management of a trading company. Tales had reached England of embezzlement and corruption, both real and imaginary, and those shocked the sense of justice and fired the imagination of Burke, Fox and the Pitts. Chatham wrote in 1773. 'India teems with iniquities so rank as to smell to earth and heaven.'[1] Horace Walpole, the historian, recorded the popular impression when he wrote 'Such a scene of tyranny and plunder has been opened up as makes me shudder . . . We are Spaniards in our lust for gold, and Dutch in our delicacy of obtaining it.'[2]

From 1765 India loomed large in the annals of Parliament We read in Cobbett's *Parliamentary History*, under the year 1768: 'The affairs of the East India Company were now become as much an object of annual consideration as the raising of the supplies.'[3] However, Parliament was for long reluctant, on various grounds, to bring the Company's Indian territories under the Crown; it only wanted to exercise some control over the Company's administration, so that the worst abuses might be prevented In 1767 an Act of Parliament obliged the Company to pay into the Exchequer £400,000 annually for two years, in return for the privilege of retaining its territorial acquisitions But this did not satisfy the critics; it was thought hardly just 'to share in the Indian spoils' Some considered it to be hush-money. The Company's affairs had to be regulated and brought under the control of the Crown A Select Committee of Parliament inquired into the affairs of the Company in 1772, and issued twelve reports containing information unfavourable to the Company; and a secret Committee also sat and issued six additional reports As a result, the 'Regulating' Act was passed in 1773. It modified the constitution of the Company and reorganized its administration in India. The Governor in Council of Bengal became 'Governor-General in Council', with some power to superintend the work of the Governments of the other two presidencies

Thus the administration of the Company's territorial possessions came under a 'supreme' Government in India. But the power of superintendence given to that Government over the 'subordinate'

[1] *Correspondence of Chatham* (1838), vol IV, p 210.
[2] *Letters of Horace Walpole*, vol VIII, p 149, quoted in *Cambridge History of India*, vol. V, p. 187.
[3] *Parliamentary History of England*, ch xvi, p 402.

presidencies was circumscribed by various qualifying clauses, and was largely curtailed by the provision that they could directly carry on correspondence with, and take orders from, the Home authorities. Warren Hastings, the first Governor-General, complained that the Act gave him (and his Council) 'a mere negative power and no more'[1] 'It says that the other presidencies shall not make war nor treaties without the sanction of this Government, but carefully guards against every expression which can imply a power to dictate what the other presidencies shall do. . . . Instead of uniting all the powers of India, all the use we have hitherto made of this Act of Parliament has been to tease and embarrass'

Nor were the Company's critics satisfied. Indian affairs continued to be in the forefront, and another elaborate inquiry was made in 1781, resulting in the issue of 18 bulky reports. Burke, who was the president of the Select Committee, was himself the author of some of them, and he became the fiercest critic of the Company from that time. A fuller control of Indian administration was sought by Parliament, and Pitt's Act of 1784 was the result It created a Board of Control, consisting of the Chancellor of the Exchequer, a Secretary of State and four Privy Councillors, with power to superintend the work of the Indian Governments in consultation with the Court of Directors of the Company Thus the ultimate direction of Indian policy passed to the British Cabinet, but the patronage was still vested in the Company The Act also strengthened the hands of the Governor-General in India by giving him fuller powers over the provincial Governments in questions not only of war and diplomacy but of revenue However, the right to transact business by direct correspondence with the Home authorities was not taken away from the two subordinate presidencies, and in practice their powers were unimpaired Nor did the Acts of 1793 and 1813 make any change in this matter

But the *coup de grâce* came in 1833 The Charter Act of that year created a real 'central' Government for India; the Governor-General 'of Bengal' became the Governor-General 'of India' A separate Government was established for Bengal, although for some years the Governor-General of India continued to have charge of Bengal also. The Act made the 'supreme' Government really supreme in the civil as well as the military administration of India Till then, the subordinate presidencies managed their own finances and made their own regulations, and the 'supreme' Government had only a general supervision over them But all this was changed in 1833. The whole administration of India, financial as well as general, became centralized, and the presidency Governments became mere administrative

[1] G R Gleig, *Memoirs of the Life of the Right Hon Warren Hastings* (1841), vol. II, pp 41-2

authorities. Although the words in the original bill—that 'the whole civil and military government of all the said territories and revenues in India shall be vested in one Governor-General and counsellors'—were later removed on the ground that thereby the supreme Government's work would become too heavy, the power of 'superintendence, direction and control of the whole civil and military government' vested in the Governor-General in Council by the Act was comprehensive enough to give him complete power over all the territories in India.

Indeed the Court of Directors recognized that a Government sitting at Calcutta could not effectively rule the whole of British India, and therefore, in their dispatch accompanying the Charter Act, they laid down the main lines of a working arrangement They wrote :

> Invested as you are, with all the powers of government over all parts of India, and responsible for good government in them all, you are to consider to what extent and in what particulars the powers of government can be best exercised by local authorities, and to what extent and in what particulars they are likely to be best exercised when retained in your hands. With respect to that portion of the business of government which you fully confide to the local authorities, and with which a minute interference on your part would not be beneficial, it will be your duty to have always before you evidence sufficient to enable you to judge if the course of things in general is good, and to pay such vigilant attention to that evidence as will ensure your prompt interposition, whenever anything occurs which demands it.

They also added :

> It was impossible for the legislature and it is equally so for us in our instructions, to define the exact limits between a just control and a petty, vexatious, meddling interference We rely on the practical good sense of our Governor-General in Council, and of our other Governors, for carrying the law into effect in a manner consonant with its spirit, and we see no reason to doubt the possibility of preserving to every subordinate Government its due rank and power without impairing or neutralizing that of the highest [1]

The same instructions were repeated in a dispatch of 1838 [2]

The law-making power of the presidency Governments was withdrawn in 1833. And the whole legislative authority in India was vested in the Governor-General in Council, and this body was strengthened by the addition of a Law Member. The subordinate Governments were authorized to submit to the Supreme Council, 'drafts or projects of any laws or regulations' which they might think expedient, and the Supreme Council was required to take them into consideration But that Council was constituted of

[1] Dispatch No. 44 from the Court of Directors, 10 December 1834.
[2] Dispatch No. 3, 28 March 1838.

Bengal civilians, and there was no one on it who had local knowledge of the two subordinate presidencies. It was originally proposed to appoint on the Supreme Council a representative from each of the presidencies, and such a provision would have greatly improved the relations between the supreme Government and the presidencies. This proposal, however, was not accepted. The presidency Governors continued to have their own Executive Councils, but that only served to keep up the patronage of the Company. In 1853, however, each of the presidencies was allowed to send one representative to the Supreme Council.

Thus, in theory, the central Government had the whole administration of British India in their hands, but owing to the imperfect state of communications, the persistent divergences in legal usage and administrative practice, and the lack of contiguity between the different British possessions in India, that Government found it difficult to keep under their immediate control the far-flung territories which came under British authority from time to time After 1850 these conditions largely changed. By successive annexations of territory from Indian rulers and by the liberal use of the 'doctrine of lapse', practically the whole of what we now call British India came under British rule. Roads and canals were opened in many parts of the country, and posts and telegraphs brought the distant parts of the sub-continent into regular communication. Thus the sub-continent became a well-knit economic unit, the supremacy of the Governor-General in Council became more and more real, and the subordinate Governments were reduced to the position of mere local bureaux of a centralized Indian Government.

During Dalhousie's time, these centripetal forces gathered great momentum. He reorganized the whole administrative system and insisted that periodical reports about the activities of every department in the provincial Governments should be submitted in detail. These reports became an effective means of controlling provincial activities.

After the assumption of authority by the Crown, the power of the central Government grew even stronger. The creation of a new financial system and a unified department of accounts and audit gave that Government a powerful agency for the control of subordinate Governments. The promulgation of the civil and criminal procedure codes in the 'non-Regulation' as well as the 'Regulation' provinces brought India under a uniform system of law and strengthened the bonds between the different parts of the country. Moreover, the improved system of communications enabled the Home Government to interfere more effectively in the details of Indian administration.

All this led to the culmination of centralization after 1860, and made the position of the provincial Governments in some ways intolerable; and, as we shall see, there soon arose a body of opinion

both in India and in England that a devolution of authority to the provincial Governments was necessary.

§5. *The Provincial System*

Before 1833, there were only three Governments in India, namely those of the three presidencies; but between then and 1900, four other provincial Governments came into being, namely the North-Western Provinces, the Punjab, the Central Provinces and Burma.

Already in 1833, the Bengal Presidency had become too extensive to be administered by one Government. The Act of 1833 authorized the creation of a new presidency with Agra as capital, but this was not given effect to on the ground of expense, and in 1836 a new province called the North-Western Provinces was created, under a Lieutenant-Governor. In the same year, a Lieutenant-Governor was appointed for Bengal also. When Oudh was annexed in 1856, it was first placed under a Chief Commissioner, but from 1877 the Lieutenant-Governor of the North-Western Provinces became also the Chief Commissioner of Oudh. In 1902, they were combined into a single province under the title of the United Provinces of Agra and Oudh (often referred to as the U.P.). The province of the Punjab was next formed as a result of the Sikh Wars, and was placed under a Chief Commissioner. After the Mutiny, Delhi was added to it, and a Lieutenant-Governor was appointed. The Central Provinces (C P.) was formed in 1861, by combining the Nagpur Territories, hitherto ruled by a Chief Commissioner, with the Saugor and Nerbudda Territories, till then included in the North-Western Provinces. In 1903 Berar also came under the Chief Commissioner of the Central Provinces. Lower Burma was constituted a province in 1862; Upper Burma was added to it in 1885, and thus the province of Burma was formed, first under a Chief Commissioner, and after 1897 under a Lieutenant-Governor. Of the new provinces, all except the North-Western Provinces were placed in the category of ' non-Regulation ' provinces.

None of these new provinces had the status of the presidency Governments. They were placed in charge of senior civilians, and had no Executive Councils till long afterwards They maintained no separate armies nor had they separate civil services. They could not correspond directly with the Home authorities, and were more directly under the supervision of the Governor-General in Council than the two presidency Governments.

Bengal, with a population of over 70 millions, was still found too large and populous to be managed by one Government, and therefore Lord Curzon in 1904 separated Eastern Bengal and Assam, and placed the new province under a Lieutenant-Governor. This arrangement created considerable discontent, and was

modified in 1911. Assam again came under a Chief Commissioner. Bihar and Orissa were separated from Bengal and formed into a separate province under a Lieutenant-Governor, and Bengal once more became a presidency with a Governor at its head.

Thus in 1919 there were nine provincial Governments in India, three under Governors (Madras, Bombay and Bengal), four under Lieutenant-Governors (the United Provinces, the Punjab, Burma, and Bihar and Orissa), and two under Chief Commissioners (the Central Provinces and Assam) There were besides minor administrations like British Baluchistan, the North-West Frontier Province, Ajmer-Merwara and Coorg, which were governed under the immediate supervision of the Governor-General. The differences between the three classes of provinces still continued, and except that the three presidency armies were combined, the presidency Governments maintained their precedence in rank, held firmly to their right to correspond directly with the Secretary of State on matters unconnected with finance, and retained their full discretion to select persons for important posts under them. The Lieutenant-Governors had also a fairly large authority over their provinces; but the Chief Commissioners were in theory rather like delegates of the Governor-General although, in practice, they had as large powers as Lieutenant-Governors and, like them, were later given legislative councils.

Under the Reforms Act of 1919, the six major Provinces hitherto under Lieutenant-Governors or Chief Commissioners became 'Governors' Provinces', each with a Cabinet consisting of councillors and Ministers. Since then, the North-West Frontier Province (N -W F P) has been raised to the status of a Governor's province, and two new provinces have been formed, namely Orissa and Sind Burma has been separated from India Thus the number of provinces has become eleven.

The provinces of India were not formed on cultural or linguistic considerations; they were generally the results of military or political exigencies. Most of the provinces include several linguistic areas, and only Bengal can claim a high degree of cultural homogeneity Many of them are too unwieldy to be properly administered by a single Government and still remain so, in spite of recent improvements in transport and communications. From this point of view, the formation of the two new provinces of Orissa and Sind is to be welcomed, although financially it may create new difficulties.

CHAPTER II

LAND REVENUE UNDER THE COMPANY

§1. *Preliminary*

It is now generally recognized that pre-British administrative practices greatly influenced the system of government established by the East India Company in India. In no field is this debt heavier than in public finance A revenue system suited to the conditions and requirements of the country had been evolved in India, long before the establishment of British rule. Akbar placed the coping stone on that structure with the help of Todar Mal. Most of the elaborate methods of land survey, revenue assessment and collection practised in India to-day may be traced to Akbar's days. But the commendable methods introduced by that great king had largely fallen into disuse by the time Britain came on the scene. After 1707 provincial governors became more or less independent, and some of the middlemen who were formerly employed as revenue-farmers gradually established stronger rights over the land, and collected as much revenue as they could extract from the helpless peasantry. The early British administrators had therefore a very difficult task before them. They had to recondition considerably the heritage which they received from their Indian predecessors, and this greatly taxed their powers

When the British first occupied the country the revenue came from two main sources—namely, *mal* (*mahl*) or land revenue,[1] and *sair*, which consisted of a variety of imposts chiefly on personal property.[2] Roughly *mal* was agricultural revenue, and *sair* non-agricultural; but it must be remembered that the latter was also paid by agriculturists although its burden fell chiefly on traders and artisans. The British adopted this system, and gradually modified it to suit the changing conditions of the country. *Mal* became land revenue and *sair* came to be called by the all-inclusive name of inland duties. These duties soon became a great abomination, and most of them were abolished soon after 1833; but some continued to be levied under respectable names like customs duties, income-tax, excise, salt revenue and opium duty; and these have since become important heads of revenue.

[1] The term *mahl* had a variety of meanings and generally meant property or possessions, but in the revenue officer's jargon, it meant land revenue, and this use of the term was gradually established.

[2] See *The Fifth Report from the Select Committee of the House of Commons on the Affairs of the East India Company* (abbr. *Fifth Report*) (1812), vol. II, app. xiii. According to James Grant *sair* included 'almost the whole system of taxation in Europe'. A variant of the term is *sayer*

In this chapter we shall trace the development of the land revenue system.

§2. *Bengal and the Zamindari Settlement*

We may dismiss at the outset the hackneyed question whether land revenue in India is a tax or rent. The whole controversy arose out of a misunderstanding about the ownership of land in India It is often said that in Hindu and Mohammedan times all land belonged to the king, but this view is supported neither by Hindu nor by Mohammedan law. Private property in land was recognized in ancient India; perhaps it was not recognized will all its modern legal implications, but the point is that it was recognized in its essence. The eminent lawgiver Manu clearly says that land belonged to him that cleared it, even as the deer belonged to him that killed it.[1] What the king claimed was a tax on cultivated land, and it was expressed as a share of the produce. He also claimed the right to minerals and perhaps to waste lands. The king's share was generally collected by the village headman; but subsequently when kingdoms expanded into empires the direct contact with the village community was weakened and intermediaries of all kinds came into power. Thus the elaborate revenue system of Akbar and Todar Mal was managed with the help of a number of middlemen of whom the zamindar was one. According to the Taxation Inquiry Committee, 'originally, he (the zamindar) was merely a tax-collector or farmer of revenue, who agreed to contribute a lump sum from the portion of the country allotted to him '.[2] In the days of the powerful Moguls these intermediaries were kept under check, but when the central power weakened they gained the upper hand. Their tenure tended to become hereditary, and they began to levy various imposts on the ryots [3]

When the British began to administer Bengal they did not regard the zamindars as proprietors, but employed them in the collection of revenue, first on annual contracts and later on contracts lasting for five years The zamindars were also required to grant *pattas* (leases) to the cultivators specifying the amount to be paid by them. Generally the hereditary zamindars were preferred, but all of them did not accept the terms of the contract The Company's officers (first called 'supravisers' and later 'collectors') determined the limits of estates and supervised the collection of revenue. At first Hastings was puzzled by the complexities of the Indian land system, and when the five-year period was completed a committee was appointed to inquire into the whole matter. In the meantime great fears were aroused in the minds

[1] *Sthāṇucchedasya kedāram āhuh śalyavato mṛgam.* Manu, IX, 44.
[2] *Report* (1926), p. 40.
[3] *Fifth Report*, vol II, p. 11

of the hereditary zamindars, and to allay such fears the India Act of 1784 required the Government to make permanent rules in regard to 'the tenure of rajas, zamindars and other native landholders'.

Lord Cornwallis made it his aim to develop a system of landlord estates on the British model, and in spite of contrary advice from more experienced persons like Sir John Shore and James Grant, he decided to confer proprietary rights on the zamindars and to fix the Government demand for all time It was his conviction that, even if the zamindars were not proprietors in the English sense, it would be to the interest of the state and of the community to make them proprietors; for like his contemporary, Arthur Young, he believed that the magic of private property would turn sand into gold.

In the settlement regulations of 1793, the zamindars were declared to be proprietors of the areas over which they collected the revenue, subject only to the payment of the annual land revenue. The Government also reserved the right to take measures for the protection of the cultivating classes. The assessment was fixed for all time, and the Government undertook not to tax future improvements, but reserved the right to levy *sair* or any other inland duty on the zamindars. The actual rents paid by the tenants at the time were made the basis of assessment, and the Government demanded ten-elevenths, leaving to the zamindar the remaining one-eleventh as his remuneration for the trouble. At that time, this was felt a very extortionate demand, and many zamindars refused to accept the settlement. Some of those who accepted it soon sold their estates, while others were dispossessed of their estates owing to arrears of revenue.[1] As time went on, however, cultivation extended, prices rose and naturally rents increased and rendered the burden of assessment extremely light Many of the zamindars sublet portions of their zamindari to others and thus avoided even the trouble of collecting rents from the ryots. In this manner, the Government gave away to the zamindars all the unearned increment in land, and when the expenditure of the Government subsequently increased, the pressure of taxation fell heavily upon temporarily settled land elsewhere and upon classes other than zamindars in Bengal.

The persons who thus became proprietors were not all of the same class; there were among them rajas who held large principalities from ancient times and others who obtained their rights from Mohammedan rulers; but the great majority of them were revenue farmers employed by the Nawab or by the Company. To this miscellaneous group of persons, Cornwallis gave away the bulk

[1] According to a story, one zamindar was 'confined under a guard of sepoys and prevented from bathing, praying or eating', because he had refused to enter into settlement and was finally 'drawn to sign an application for settlement'. See H Beveridge, *The District of Bakarganj*, p. 62.

of cultivable land in perpetuity. Cornwallis did indeed take care to insist that the zamindars should issue *pattas* to the ryots and forbid *abwabs* or illegal cesses; but these safeguards came to nought and the ryot was soon subjected to unjust exactions.

The administration of land revenue was vested in the Board of Revenue. A Committee of Revenue existed in Calcutta before the time of Warren Hastings, but in conformity with the provisions of the India Act of 1784, he reconstituted it as a Board in 1786, with a member of the Governor-General's Council as President. Its principal duty was to control and advise collectors in the whole of their revenue work. A Chief Sheristadar was also appointed to bring the revenue records under the control of the Government, and James Grant was the first holder of that post.[1] He did valuable work in reducing to a system the revenue records kept in the traditional mode by the *kanungo*. The Board differed from the old Committee on the important question of land settlement, and held that the zamindar was the legal owner of land and that the state was entitled only to a customary revenue from him. This view was strongly held especially after Sir John Shore became the president of the Board in 1787.[2] The authority of the Board of Revenue was extensive; practically the whole administration of the presidency came under its control.[3]

§3. *Land Revenue Settlement in Madras*

The zamindari system of permanent settlement was soon introduced in all the territories then under the Company. The Board of Revenue in Madras reported against the perpetuation of the settlement and asked for time for further investigation. But in 1799, influenced largely by the apparent ease of realizing the revenue, the Court of Directors ordered its adoption all over the presidency, and to ensure its immediate introduction the Governor-General went to the length of proclaiming his resolution to remove from office any public servant who evinced a want of zeal in giving effect to it. Accordingly, the northern districts of Madras were permanently assessed, and the lands under the various zamindars were confirmed to them in perpetuity. Where there were no zamindari estates, the lands (*haveli*) were parcelled out into estates of convenient size yielding from Rs. 3,500 to Rs. 17,500 as annual rent and these were sold as *mootta* (mitta), i.e. perpetually settled revenue farms to the highest bidder. Regulation XXV of 1802 described both these classes of landholders as proprietors and specified the terms on which they held the property.[4]

[1] *Cambridge History of India*, vol. V, p 431
[2] ibid, pp 447-8.
[3] ibid, vol II, p 8 'The Board of Revenue acted largely as the Government of the province' (Dodwell).
[4] C. D. Macleane's *Standing Information regarding the Official Administration of the Madras Presidency* (1877), pp 93-4

When other territories were taken up for settlement, the zamindari system was found hardly suitable. In the country round Madras known as the Jaghir, Lionel Place found vestiges of a corporate village life, and he settled with the village communities corporately. In the Baramahal (now part of Salem), Alexander Read began by settling with villages, but while grappling with the facts of the situation he hit upon the more appropriate system of settling with individual ryots and thus initiated the ryotwari system which has since become famous. This new system involved a somewhat detailed survey of fields; the assessments were to be moderate, and were fixed for a definite period. The ryot could add to or throw up his lands annually. The average assessment per acre on dry lands was fixed at one to two rupees, and on wet lands from 5½ to 11 rupees.[1] Malabar, which came under the Company in 1792, was first under the Bombay Presidency, whose officers made a settlement with the rajas and chiefs [2] But this failed, and the district was transferred to Madras (1800) and Major (afterwards Sir Thomas) Munro was appointed to settle it Munro, who was trained under Read, was an ardent advocate of the ryotwari system, and he introduced it there But this produced discontent among the hereditary Jenmis, who broke out in open rebellion Munro suppressed the rebellion and modified the settlement in partial recognition of the claims put forward by the chiefs and Jenmis. He also took part in settling South Kanara (1800), and the best part of his work was done in the Ceded Districts (1802-7) The same system of settlement was introduced in parts of Tanjore in 1804.

All this was experimental. The Court of Directors had already sent out orders in 1799 insisting on the introduction of the Cornwallis system of Bengal into the whole presidency Accordingly, in 1802, the Jaghir was divided into 61 estates and put up to auction as moottas From 1803 to 1805 the Baramahal was also divided into moottas and auctioned. The settlement failed miserably in the Baramahal; many moottadars became bankrupt, and a return was made to ryotwari almost immediately. The system was, however, more successful where there was a class of hereditary chiefs. Thus the Poligars of the Tamil districts, whose position was somewhat analogous to that of the zamindars of the northern districts, were made proprietors in perpetuity between 1802 and 1807 and their dues fixed for all time By 1807 the Circars, the Jaghir and parts of Tinnevelly, Ramnad, Chittoor and Dindigul were permanently settled on the zamindari basis.

By the experiments thus carried out, it came to be widely recognized that the zamindari system did not suit the conditions

[1] See Baramahal Records.

[2] A committee consisting of two Bengal and two Bombay civilians were deputed for the purpose and their report, issued in 1793 in several volumes, is a mine of information on the district.

of the Madras Presidency. Lord William Bentinck, then Governor of Madras, fully recognized this. What, then, must take its place? Munro, who was the most experienced revenue official of the time, held that the settlement should be with the individual ryot, but he wanted the assessments to be lowered and to be made permanent. He expected that the consequent increase of cultivation would make up for the reduction and perpetuation of assessments.[1] But neither the zamindari system nor the ryotwari pleased the Board of Revenue; they preferred the adoption of a village joint-rent system (mahalwari), and after Munro left India in 1807, a trial was made of this new system in several districts, but the results were not really satisfactory, since the assessments were excessive. Nevertheless, a ten-year settlement was made on this basis [2]

In the meantime, owing chiefly to the influence of Munro, the Directors revised their view about the zamindari settlement and declared strongly for the ryotwari system, and instructions were accordingly sent out in 1817 The Madras Board of Revenue raised a mild protest, but they were silenced. When Munro became Governor in 1820 the ryotwari system made rapid progress and before his death in 1827, it was adopted not only in the unsettled districts but also where village settlements had been made and where mootas had lapsed to the Government Munro also succeeded in effecting the reduction in assessments which he had recommended in 1807.

The basic principle of the ryotwari settlement was that the Government dealt with the individual ryot without recourse to any middleman The ryot was recognized as proprietor, and was given full liberty to sublet, sell, mortgage or bequeath his land He could not be ejected so long as he paid his fixed dues, but he could increase or diminish his holdings annually. The settlement involved the preparation of maps and classification of soils. The gross produce of each plot was calculated on the basis of paddy crop in the case of irrigated lands and cumbu, cholam or other grain for the unirrigated. Transport facilities and nearness to markets and irrigation facilities were also taken into account. The Government demand was supposed to be pitched at about 33 per cent. of the gross produce, but actually the proportion was higher or lower, generally higher. The assessments were fixed in money and were not variable from year to year, except where water was supplied by the Government to turn dry land into wet

[1] R. C Dutt, *Economic History of India under Early British Rule* (1902), pp 137-40.

[2] In a certain taluk, according to Munro, ' nearly half the ryots had emigrated, most of the headmen were reduced to poverty, and many of them had to be sent to jail. The substantial ryots, whose stock supported the agriculture of the villages, were gone ' Various causes contributed to discredit the *ryotwari* system The frequent deficits in Madras between 1798 and 1810 greatly influenced this change of view.

or to turn single-crop land into double-crop land. In unfavourable seasons, remissions were granted for entire or partial loss of produce. In short, as an official report of the Madras Revenue Department puts it : ' The ryot is virtually proprietor on a simple and perfect title, and has all the benefits of a perpetual lease, without its responsibilities, inasmuch as he can, at any time, throw up his land, but cannot be ejected, so long as he pays his dues.'[1]

The settlement was therefore, to all appearances, a permanent settlement, but this was questioned by the Board of Revenue in a memorandum written in 1902 [2] They did not deny that the founders of the ryotwari system were originally in favour of the permanency of the assessment, but denied that they had the idea of perpetual immutability in mind when they used the words ' fixed ' and ' permanent '. Later, owing to the fall of prices, the assessments were found too high and therefore were reduced, and thus permanency never came into actual practice. Their reasoning is hardly convincing, and an array of documentary evidence can be adduced to show that the Government intended the system to be permanent.[3]

Munro's objects were not realized. The survey was conducted in an unscientific manner, and the assessment remained exorbitant in many parts Munro's intention was to take only one-third of the produce, but his instructions were not properly carried out, and even where they were carried out the assessment often covered the entire economic rent. Further, the commutation rates fixed by Munro proved too high when subsequently there was a fall in prices extending over the whole period from 1825 to 1850 [4] The revenue was generally assessed by the low-paid underlings of the collector, and as they were often corrupt, the wealthy and powerful landholders obtained lenient terms, while the poor and timid were made to bear the burden.[5] No doubt, there was a provision for remission when crops failed, but it was not easy to prove that the conditions for remission had been fulfilled

[1] *Report for 1855-6,* quoted in R A Dalyell's *Report of the Madras Famine of 1866,* p 66

[2] *Resolution on the Land Revenue Policy of the Indian Government* (1902), pp 157-80.

[3] Both Read and Munro repeatedly declared that the assessment was to be permanent, and this view continued to be held ever afterwards. According to the Administration Report of the Madras Revenue Department for 1855-6, ' the assessment is fixed in perpetuity (so far as any increase to it is concerned) on each field ' The Court of Directors wrote in the Dispatch of 1857 · ' The assessment is fixed in money and does not vary from year to year, except in those cases where water is drawn.' In 1857 the Madras Board of Revenue wrote that ' a Madras ryot is able to retain his land perpetually without any increase of assessment, as long as he continues to fulfil his engagements '

[4] The prices fell to between 30 and 40 per cent below the commutation rates by 1850. In Guntur, the price of the best rice per Madras garce fell from Rs. 133 to Rs 99; in Rajahmundry from Rs. 101 to Rs 65. See also S Srinivasa Raghavaiyanger, *Memorandum on Forty Years' Progress* (1893), pp 27-8

[5] R. C. Dutt, *Economic History of India in the Victorian Age*, pp. 68-81; also *Early British Rule,* pp. 153-61 J. B. Norton, *Letter to Robert Lowe* (1854), pp 107-68; see especially a letter of Sir T. Madhava Rao, pp. 152-4.

Munro expected that the ryot's freedom to add to or throw up his lands would make the system elastic and convenient, but actually such freedom was enmeshed in vexatious rules. If the ryot gave up any land he was required to relinquish good and bad lands in like proportion, and therefore this provision proved to be of little practical advantage.[1]

The expectations of Read and Munro that the ryotwari system would very largely bring waste lands into cultivation and raise up a class of sturdy peasant proprietors remained also unfulfilled. As population increased more land was indeed taken up, but this only swelled the class of petty ryots (called 'pauper farmers' by Norton), who cultivated uneconomic and fragmented holdings. The price of land did not rise as was expected, but in many parts land became almost unsaleable The Collector of Cuddapah wrote in 1845 'The universal complaint and request of the ryots is to be allowed to reduce their farms, a convincing proof that cultivation is not profitable'[2]

The original intention of Munro was that the assessment should not be increased on account of improvements on the land; for he believed that this would increase revenue rather than reduce it.[3] But his intention was not given effect to, and this discouraged the improvement of cultivation and the adoption of valuable crops. In 1837, however, the Court of Directors ordered that the Government should lay no claim to enhancement in the case of improvements solely due to the ryot's industry.

Nor was the collection of revenue an easy matter in those days. The revenue demand was generally too high to be met from the normal surplus. According to all reports, torture and other cruel practices were resorted to This formed the subject of a debate in the British Parliament, and as a result a committee in Madras investigated the matter and discovered that torture was prevalent, although the collector and his immediate assistants never countenanced it.[4] The fact is that the higher officers had neither the means nor the inclination for watching over their numerous underlings, and except where able men were at the helm these latter had their way.[5]

The pernicious results of this system may be seen in the reports of the Collectors of the time, copious extracts from which are printed in the works of J. B Norton and R. C. Dutt.[6] The

[1] J B Dykes, *Salem, a Collectorate* (1853), p 101 Also letter from the Board of Revenue to the Government, 30 September 1852.

[2] Letter to the Board of Revenue, Madras, 25 July 1846.

[3] See Munro's letter to Read, 18 July 1797

[4] The common forms of torture were keeping a man in the sun, preventing him from going to meals or calls of nature, squeezing the crossed fingers, pinches, slaps and blows with fist or with whip, twisting the ears, etc See the Report of the Committee (1855), par 68.

[5] See Sir George Campbell, *Modern India* (1852)

[6] See J B Norton, op. cit., pp 89-168; R C. Dutt, op. cit., pp. 153-61; *Victorian Age*, pp 67-73, also Srinivasa Raghavaiyanger, op. cit , pp 28-33.

gist of these reports is that cultivation had ceased to be profitable, that the ryots were impoverished and heavily in debt, that the wealthier ryots had disappeared, that agriculture had degenerated, and that famine had frequently ravaged most districts. Bourdillon's *Description of the Madras Ryot*, written in 1853, is the most memorable of these documents and is well worth perusing [1]

It is no wonder that the land revenue of Madras remained stationary during the period 1820-58, as is evident from the following table :

Year	*Revenue* (£)
1810-1	1,071,666
1820-1	3,738,460
1830-1	3,460,329
1840-1	3,729,085
1850-1	3,515,969
1857-8	3,678,862

The defects of the system were dealt with by experienced revenue officers like A D. Campbell before the Parliamentary Select Committees of 1832 and 1852, and in various reports and proceedings of the Board of Revenue. Assessment rates were experimentally lowered, raised, and lowered again, but no real improvement came before the introduction of the new survey and settlement system [2]

The Board of Revenue in Madras dates from 1786. It originally consisted of three members, and was presided over by a Member of Council In this body was vested 'the superintendency of the whole administration, settlement and receipts of the revenues'. The Board superseded the provincial Councils, which previously had controlled the work of the Collectors [3] It had originally certain judicial functions also, but they were abolished by Regulation II of 1806 In 1804, it became also a Court of Wards for the Presidency and had control over religious and other endowments.[4] The portfolio system, now in vogue, was only introduced in 1887, when the membership was raised to four and each member was given a separate charge.[5] The number of members was subsequently reduced to three.

§4. *The Bombay System*

The experiments in Madras were of great use in carrying out revenue settlements in the territories in western and northern

[1] See Srinivasa Raghavaiyanger, op cit , pp xxxviii-xlii
[2] See ch. xv.
[3] *Fifth Report*, p. 191.
[4] Regulation V of 1804 and XXI of 1855.
[5] *Cambridge History of India*, vol. VI, pp 51-2

India which subsequently came under British rule. The lessons learned at the expense of the Madras ryot were helpful in devising more liberal revenue arrangements in the rest of India. We shall see briefly how this happened.

The principal territories comprised in the Presidency of Bombay came under British rule in 1817. Elphinstone, who first investigated the conditions in the presidency, was struck by the prevalence of the village community, owing perhaps to the important part played by it in Maratha administration The prevalent form of tenure was *mirasi*, with the hereditary joint ownership characteristic of it These institutions were, however, disregarded, and the Court of Directors, who had been converted to the ryotwari faith by Munro, insisted that the settlement should be made with every separate cultivator on a temporary basis. This decision sounded the death-knell of the village community.

As in Madras, the first assessments were too high. Pringle, who first carried out the settlement in Poona and the surrounding districts, measured the land and fixed the Government demand at 55 per cent of the produce But the measurements were faulty, the estimates of produce were erroneous, and not even half of the revenue demand was realized According to the official report :[1]

> Every effort, lawful and unlawful, was made to get the utmost out of the wretched peasantry, who were subjected to torture, in some instances cruel and revolting beyond description, if they could not or would not yield what was demanded Numbers abandoned their houses and fled to neighbouring Indian states. Large tracts of land were thrown out of cultivation and in some districts no more than a third of the cultivable area remained in occupation.

In 1835, a re-survey and settlement was commenced by H. E. Goldsmid and Lieutenant (later Sir George) Wingate in Indupur taluk and their system was later extended to other parts of the presidency, and still remains the basis of the Bombay land revenue administration The system is simple. 'They classified all soils into different classes according to their quality; they fixed the assessment of a district after inquiries into its circumstances and previous history, and they distributed the district demand among the villages and fields contained in the district. The owner of each field was then called upon to cultivate his holding on payment of the land tax fixed for his field '[2] The assessment was thus based on general considerations and not upon elaborate calculations as in Madras. The settlement officers' subjective

[1] *Bombay Administration Report* (1872-3), p. 41. See also B H Baden-Powell, *Land Systems of British India* (1892)

[2] R C Dutt, *Victorian Age*, p. 53

impressions played a great part, but this did not turn out to the detriment of the ryot in practice.[1] The settlement was fixed for 30 years. Thus the first experiments in ryotwari settlement turned out to be more successful in Bombay than in Madras [2]

The result may be seen in the steady improvement in revenue The total land revenue, which was £1·0 million in 1830-1 had risen to £2·2 millions by 1850-1.

§5. *Land Revenue in the North-Western Provinces*

The territory formerly called the North-Western Provinces came under British rule by 1803, partly by the cession from the Nawab of Oudh (1801) and partly by conquest from the Marathas (1803). The intention at first was to introduce the Bengal system of land settlement. But this was not carried out for some time, owing to the counsel of delay that came from the commissioners appointed to settle the territory. In 1821, the Court of Directors definitely decided against permanent settlement and temporarily fixed the Government demand at 83 per cent of the gross rental of estates. This assessment was found to be excessive, and in 1833 Lord William Bentinck reduced the demand to 66 per cent. and made the settlement for 30 years The settlement was not with cultivators but with the hereditary talukdars in Oudh, and generally with proprietary villages in the rest of the province This was fixed by Regulation IX of 1833, which subsequently became the basis of land settlement all over India The actual settlement was carried out by Robert Merttins Bird who worked incessantly for nine years, and evolved a system by which he gave great relief to the overtaxed landholders of the province His work was done in the humane spirit of Bentinck, and it was instrumental in giving rise to a class of sturdy and contented landowners.

The procedure adopted by Bird was the following He first made a rough summary and map of all the land within a fiscal area Then a professional survey was made of the land of the area, both cultivated and uncultivated. Finally the land tax for the entire fiscal area was fixed and that was apportioned among the estates or villages (*mahals*) comprised in the area. The weakest point in the system was the part of guesswork in the calculation of the rental, but this was subsequently rectified by better methods of surveying and assessing. The intention of Bird seems to have been to make the assessment perpetual where the

[1] *Bombay Survey and Settlement Manual*, vol I, pp. 123-4.

[2] The system was assailed by the Sadr Board of Revenue, which suspected that it would be liable to the defects of the Madras system. To this, Wingate and Goldsmid made a convincing reply, which is contained in a letter dated 17 October 1840. See R. C. Dutt, *Victorian Age*, pp 54-7.

lands were fully cultivated, but this was not accepted by his successors.

Bird's work was continued by James Thomason who drew up in 1844 the first complete Land Settlement Code in India. This Code, entitled *Directions for Settlement Officers*, became later the basis of similar codes in other parts of India. Bird's assessments were revised and reduced, and even then the revenue steadily improved. The revenue of the province rose from £3·6 millions in 1838-9 to £3·7 millions in 1840-1 and to nearly £5 millions in 1850-1.

§6. *Land Revenue in the Punjab*

Before it came under the British, village communities were powerful in the Punjab, and land revenue was assessed and collected in kind In theory one-half of the gross produce was taken, but in practice it varied between two-fifths and one-third The first land settlements were made by the brothers Henry and John Lawrence The framework of the Sikh system was maintained, but the revenue was collected in money. The state demand was nominally reduced, but the money basis made the assessment really heavier A set of able officers, partly military men and partly picked civilians from the Bengal Service, were appointed as heads of districts, and in general they strove to tone down the rigours of the revenue system and to do justice between man and man The settlement was made not with individual cultivators, but with joint holders of large estates which generally coincided with villages. The joint owners were represented by their headman, called the lambardar, but in practice the revenue was separately recoverable from the shareholders Thus, although in form the assessment was on the village basis, in reality the position of the individual holders was recognized, and this helped the growth of a sturdy class of peasant proprietors

John Lawrence found that the demand of one-third of the gross produce was unfair to the peasants, especially as the *kist* was payable in money. His guiding principle was to 'assess low, leaving a fair and liberal margin to the occupiers of the soil', and he expected this would induce them to increase their cultivation and put the revenue beyond the reach of bad seasons.[1] Accordingly the revenue demand was reduced from one-third to one-fourth and then to one-sixth of the gross produce. Lawrence's expectations were realized, for there was a great extension of cultivation, and the total land revenue which was £830,000 in 1847-8 rose to £1·4 million in 1856-7.

[1] See his letter to Nicholson in Bosworth Smith's *Life of Lord Lawrence* (1885), vol. II, p. 341.

The total land revenue collections of British India in 1850-1 and 1857-8 were as follows :

	1850-1	*1857-8*	
	£	£	
Bengal ..	3,569,408	3,694,017	
Madras ..	3,515,969	3,678,862	
Bombay . .	2,286,074	2,318,241	(excluding Sind and Satara)
N.-W. Provinces ..	4,990,102	2,639,238[1]	
Punjab .	1,020,889	1,785,227	
Nagpur . .	—	277,050	
Other territories .	—	1,329,702	
Total British India .	15,382,442	15,722,337	

[1] The low figure for the North-Western Provinces was due to the Mutiny

CHAPTER III

NON-AGRICULTURAL REVENUE

§1 *Inland Transit Duties*

ALTHOUGH the term *sair* was given to the many taxes imposed formerly on non-agricultural classes, it eventually came to mean chiefly the inland duties levied on goods in transit.[1] It used to be collected by the persons who gathered the land revenue, and when the central authority of the Mogul Empire became weak, the zamindars seem to have levied it on their own authority. Thus when Bengal came under British rule, zamindars, amils and revenue-farmers all over the country kept *chowkis* or toll-houses by the roadside or on the banks of rivers, and all goods passing by were charged *sair* duties by their agents.

Next to transit duties came taxes on traders and artisans, generally called *moturpha*. In the Madras Presidency, the term *moturpha* was limited to the imposts on the artisan classes, while the levy on the profits of merchants was called *veesabuddy*.

In northern India, however, *sair* seems to have had a wider connotation than in the south. According to an account of 1771, *sair* included taxes on cotton, tobacco, betel, gram, etc., duties levied on the manufacture and sale of cloth, *peshcush*, taxes on boats, monthly duties paid by shopkeepers and other town-dwellers, bazaar collections, fees paid by cutters and sellers of grass and straw, and by fowlers and game-killers, fines, and licences for the sale of *bhang* and intoxicating liquors.[2] The levy was made on almost every article, as Sir Charles Trevelyan, who made a thorough study of the subject, said: 'the question was not what was taxed but what was not taxed.'[3]

Bengal and Bihar

In Bengal, *chowkis* existed in every *mahal*. For this purpose, the district or *sarkar* was divided into *chuklas*. All goods in transit had to be examined by the daroga in charge of the *chukla*,

[1] *Hobson Jobson* describes *sair* as 'a variety of inland imposts, especially local and arbitrary charges levied by zamindars and other individuals with a show of authority, on all goods passing through their estates by land or water, and sold at markets established by them'.

[2] *Fort William Consultations* (1771), quoted by P. N. Banerjea, *Indian Finance in the Days of the Company* (1928), pp. 250-1

[3] *Select Committee Report* (1873), p. 51. Trevelyan thought that what was called *sair* in northern India was called *moturpha* in southern India, but this is not true. In Madras, both *sair* and *moturpha* existed side by side. See below.

and the certificate (*rowannah*) issued by him would enable them to pass through the remaining *chowkis* of the *chukla*, but when they entered another *chukla* a fresh certificate had to be obtained on payment of a *chittavun*. The levy was apparently made on Hindus and Mohammedans at different rates

The Company soon realized that these charges were 'a great detriment to the public collections and a burthen and oppression to the inhabitants'. In 1779 orders were issued abolishing all duties coming under the description of *sair*, *chelluntah* and *rahadari*; and Regulation XXI of that year declared all *chowkis* kept by zamindars to be illegal. From that time the Company made active efforts to cut down these vexatious imposts In 1793 the zamindars were given compensation for the loss of revenue resulting therefrom. Regulation XXVII of 1793 firmly laid down that 'no landholder or other person of whatever description shall be allowed to collect in future any tax or duty of any denomination'.

What the zamindars lost the Government gained; but the Government wanted to simplify the collections and to reduce the different exactions into a single tax, so that when once that duty was paid the goods could freely pass without let or hindrance Regulation IX of 1810 laid down the rules of the new transit duty The number of custom houses was reduced, and each of them was placed in charge of a collector of customs. He was authorized to establish *chowkis* under his jurisdiction. Definite rules were laid down for the levy of duties. A town duty was also levied under Regulation X of 1810 all over Bengal on grain, oil, oil-seeds, ghee, tobacco, salt, etc , and these duties were farmed out for collection.

In spite of this reorganization, impediments to trade did not disappear. Nor did the number of custom houses diminish. 'The country was covered with customs establishments like the squares on a chess-board, and whenever any article included in the tariff was moved from one square to another, it paid this consolidated duty.'[1] The result has been described by Trevelyan as follows ·

> The intercourse between adjoining districts in the interior is positively burdened with heavier duties than the trade between England and India. English metals and woollens are admitted free and nearly all other articles at 2½ per cent., and on the export side, indigo, tobacco and cotton are free; while other articles are charged 2½ per cent., but in the trade carried on between the most contiguous places in the interior, metals are charged 10 per cent. and other articles from 5 to 10 per cent. This is a fact worthy of being recorded for the information of posterity. If we were to encourage swamps or accumulate mountains between the different districts of our country we could not paralyse their industry so effectively as we are doing by this scheme of finance.[2]

[1] Sir Charles Trevelyan's Evidence before the Select Committee (1873), p 51.
[2] Trevelyan's *Report upon the inland customs of the Bengal Presidency* (1835), p. 4.

Passes (*rowannahs*) had to be obtained for all goods in transit. They contained a full description as to the value, kind, quantity, number and description of packages. Therefore every time the goods underwent a change a new pass had to be obtained, and an additional duty had to be paid. Previously the duties were charged in bulk as so much per cart-load or head-load. But under the new system the duty was assessed on the value. For instance, cotton was charged 5 per cent. when raw; when it became yarn it had to pay another 7½ per cent.; and when the yarn was woven into cloth another 2½ per cent.; if it was later dyed 2½ per cent. again; altogether the duties came to 17½ per cent. Leather, sugar, shellac, saltpetre, oil and other articles were liable to double and treble imposts.[1] On top of this came the extra duty levied when goods were taken into towns. It was a great burden on local manufactures and led to the decline of indigenous handicrafts.

The harassing nature of the *rowannahs* can only be realized when one remembers that they had to be obtained before the goods attempted to pass any *chowki*, that separate passes were necessary for each parcel included in a load, that if any change had been made in the size and nature of the parcels new passes had to be obtained, that identification of the parcels had to be made at different *chowkis*, and that in every case a fresh payment had to be made

The customs subordinates had unlimited powers of stoppage and search to see if the goods corresponded to the *rowannahs*, and this led to endless corruption and harassment A patrolling officer in Delhi made the following statement :

I beg to mention the following as one of the numerous ways in which the fair dealers in salt and other goods are oppressed Should any merchant be ever inclined to be honest, it is really almost out of his power to do so Suppose for instance that a merchant has a *rowannah* for the conveyance of 1,000 maunds of salt. The *karmadah* or *chaprassi* will first demand a certain sum. The owner of the salt will object to give it. The native officer will then say, ' I must weigh the salt, for I suspect you have an excess.' Suppose the dispatch to consist of 20 *hacheries*, their contents would take three days to weigh and the merchant in this way would lose Rs. 60 on the hire of the carts during these three days. He would then after consultation offer a bribe of Rs. 20 to the *karmadah*, etc. rather than suffer the greater loss of Rs. 60 by detention. The case is different if a smuggler makes his appearance; the matter is then settled in half an hour. The smuggler pays his regular fee of 2 annas per maund and at the same time a *chaprassi* or private servant of the *karmadah* goes ahead to settle business with the next public servant and so on Should any such smugglers be detected, a private servant of the owner of the salt makes haste to the sheristadar and others concerned to get if possible *rowannahs* signed

[1] ibid., p 6.

immediately. He then, after about twelve or fourteen hours, brings *rowannahs* signed, and when asked why he did not produce them at first, his answer commonly is that he was left behind sick. The seizures in this way rendered labour in vain.[1]

In 1825 Holt Mackenzie, Territorial Secretary to the Bengal Government, wrote an able memorandum exposing the evils of the system of inland duties.[2] He made the pregnant suggestion that 'the country might be relieved from the mischief of our inland customs without any very considerable sacrifice, at least if the salt duties in our western frontier were maintained'. He also pointed out that a reorganization of the customs duties would more than make up the loss resulting from the abolition of inland duties But the suggestion was not immediately taken up.

In 1828 Lord William Bentinck deputed Trevelyan to report on the transit duties. Trevelyan attacked the whole system in his famous memorandum of 1833. Subsequently the viciousness of levying transit duties was exposed by several witnesses before the Select Committee of the House of Commons. Lord Ellenborough, President of the Board of Control, attacked it in a letter to the Chairman of the East India Company and enumerated 235 articles, mostly of common domestic use, on which duties had to be paid. The Company's Board of Directors were still unconvinced, but in spite of them, Lord Auckland in 1836 closed the inland custom houses in Bengal and abolished all town duties. Lord Ellenborough, who succeeded Lord Auckland, finally put an end to the system in Bengal. Bombay immediately followed this example, and many other parts of India soon came into line.

Madras.

In Madras the transit duties survived longer. When British rule was first established, inland duties of all kinds were levied in the territories which later became the Madras Presidency, and almost everything came under that impost. The *Fifth Report* gives a telling account of the corruption and molestation that they involved, and of the most injurious results they had on trade and industry :

> The first rates were easy and the customs houses few, but in the general relaxation of authority prevailing in the Circars, this mode of raising revenue for the support of the Government was scandalously abused. In the course of a little time, new duties were introduced under the pretence of charitable and religious donations, and fees to the *chowkidars* or account-keepers, guards and other officers at the stations; as protection money to a zamindar or as a

[1] Ibid.

[2] *Bengal Opium and Salt Consultations* (1825).

present to those who farmed the duties. Not only had the duties been from time to time raised in their amount and multiplied in their number at the discretion of the zamindars and the renters under them, but they were at length levied at almost every stage and so on every successive transfer of property.[1]

In the Northern Circars, the duties charged were *rahadari*, or duties on merchandise, and *panderi*, or tax on shops, on retail merchants in towns and on temporary stalls erected during fairs or festivals. *Sair* was also charged on liquor-vendors and keepers of brothels. In some places marriages and other ceremonies also came under that impost. *Fowzadari* was the produce of fines and confiscations, *chouth* was a fourth of the sums litigated upon in the civil courts. Rents were charged on palmyra trees on the coast, and on salt farms [2] There were also tolls to be paid all over the country, and travellers were molested in all possible ways.

In 1803, these old inland duties were abolished, and in their place were ordained (1) a duty of 6 per cent. on all goods imported by sea or land into the town of Madras, or produced within its limits; (2) a duty of 6 per cent. on all goods imported into or exported from the subordinate ports in non-British boats; (3) a duty of 6 per cent. on all goods imported or exported across the frontier; and (4) a general duty of 6 per cent. on goods imported into certain provincial towns or produced within their limits. Goods belonging to the Company were exempted from duty. Thus some goods had to pay three separate duties successively, making an aggregate of 18 per cent.

The toll hitherto collected was 'specific', i.e. regulated by the bullock-load or other measure; but under the new system it became *ad valorem* This was a very heavy burden upon such articles as cloth, which had now to pay nearly six times what they paid before. As a result, a large number of weavers migrated to the Indian States or to the villages, where they had less duty to pay This did not in any way benefit the Government but hit the consumer as the price of goods went up. In 1806, on the recommendation of the Board of Revenue, the town duties were abandoned and the frontier duty was reduced to 5 per cent. As this resulted in a fall of the inland customs revenue from Rs. 23 lakhs to Rs. 10 lakhs, the town duty was revived in 1808, but it was restricted to the goods brought into the towns, leaving goods produced in, or taken out of, them duty-free. Further, goods that had already paid the frontier duty were exempted from the town duty Some of the weavers and other artisans who had formerly migrated from the towns were thus given an inducement to return to their old homes.

Although the original intention of the Government was to levy the duties at the frontier and in the principal towns, many

[1] *Fifth Report*, vol II, p 10

[2] ibid., p. 161 et seq.

subordinate *chowkis* soon arose all over the country, and as the Government found them a source of increased revenue, they were legalized by Regulation I of 1812, which remained in force for about 30 years. Under this Regulation a general duty of 5 per cent. on a fixed tariff valuation was levied on almost every article of consumption (except grain, cotton and cotton thread) imported by land, passing through or sold within the Madras territories. Having paid such duties goods could pass to any territory.[1] When such goods came into the city of Madras, they had to pay a 6 per cent. duty, but if a certificate on stamped paper attesting the payment of the general inland duty was produced the goods were let off on payment of the extra one per cent.[2]

Over and above this general duty there was a high consumption tax levied in Madras and all the principal towns on betel, tobacco, *ganja*, *bhang* and *godack*. In some districts (Coimbatore, Madura, Trichinopoly and Tanjore), it was levied not only in the towns but in other inland *chowkis* also. The rate of duty was never below 100 per cent. This was not levied in Kanara and Malabar, but in these districts there was a special duty (*haulat*) on pepper, betel-nut, cardamom and sandalwood.[3] This heavy taxation brought into the Treasury about Rs 31 lakhs annually till 1819.

At first the Government collected this revenue directly, but as the expenses of collection increased it was later farmed out to the highest bidder.[4] The *sair* peons and *chowkidars* who collected the duty for the Government were bad, but the renters were much worse. It was to stop the extortions of the chowkidars that the Board of Revenue recommended the farming system with the approval of Sir Thomas Munro, then Governor. But worse extortion resulted, when the renters came into possession of this valued right. However, the Government gained by the change. There was an increase of Rs. 10 lakhs in the customs revenue and a large decrease in the charges of collection.

In 1835, a committee was appointed by the Government to inquire into the question of inland duties. The Committee pointed out that the inland duties were not mere transit duties but were mostly excises on consumption, and that in levying an excise of such wide scope, more detailed instructions should have been drawn up by the Government for the guidance of tax-gatherers. They wrote: 'A system of universal excise, if administered by Government servants will always be a system of universal fraud on the revenue and exactions on the people, and if administered by farmers a system of grinding oppression, under which the payment of legal dues will form the lightest part of the burden.'[5]

[1] Regulation I of 1812. [2] Regulation III of 1812 and Regulation II of 1817.
[3] Regulation I of 1812.
[4] Letter from the Board of Revenue, 23 February 1818.
[5] *Report of the Customs Committee* (1836).

The Committee had reports from Collectors describing the exorbitant demands to which the commercial classes were subject and showing how difficult it was for the Collectors to put an effective check on such transactions In some districts there were as many as 30 *chowkis*, and those who suffered the ordeal in those places had hardly any means of redress. Such articles of common use as onions, chillies, tamarind, coconut, coriander, garlic, ginger, mustard and pepper had to pay the duty. The Committee remarked :

> It appears doubtful whether any tax could be invented which would cause more universal vexation and distress, or strike more effectually at the root of industry, than the one under which such a system of interference is openly practised and avowed. It is not in the amount of duty that the grievance consists, it is the intolerable vexation that attends the collection of it.

In conclusion the Committee recommended the complete abolition of the inland duties, and they were accordingly abolished by Act VI of 1844 In the previous year they yielded a revenue of Rs. 30 lakhs.

§2 *Moturpha*

Opinions differ as to whether *moturpha* was a part of *sair* or different from it. James Grant wrote in 1787 : ' Under the head "*sayer* revenue" was also included a variety of taxes indefinite in their amount and vexatious in their nature called *moturpha*; they consist of imposts on houses, on the implements of agriculture, on looms, on merchants, on artificers and other professions and castes '[1] Such a tax existed in most parts of India under that name or under some other name. In Bengal it was abolished in 1793 (except in one Pargana),[2] and in other provinces by 1844; but in Madras, *moturpha* and other professional taxes continued to be levied till the very end of the Company's rule. Originally these taxes were collected along with land revenue, and later came to be considered as a profession tax [3] Under the local names, *sornadayam* and *pulla puttada*, the tax was levied in Arcot and the Ceded Districts on houses, bazaars, mandis, mills, oilmongers, weavers, indigo-makers, cloth-painters, shepherds, *kolagaram* (village weighman), and so forth. The scope and incidence of this tax varied from district to district and even from village to village. It was rated on income, being 2 to 4 per cent. and in some cases even 8 per cent. In Nellore, *moturpha* was levied on houses,

[1] *Fifth Report*, vol. II, p 10.

[2] It was discovered in 1870 that *moturpha* continued to be levied in some villages in Shahbad District, and brought in Rs. 178-4-2 Those villages were transferred from Ghazipur in 1819, but as *moturpha* had been abolished in the rest of Bengal before that date, it continued to be levied there, and no one took any notice of it. See *Select Committee Report* (1873), p 688.

[3] Proceedings of the Board of Revenue, 29 August to 18 December 1814.

weavers, boatmen, palanquin-bearers, fishermen, goldsmiths, blacksmiths, cartmen, perfume-sellers, shopkeepers, tank-diggers, goldfinders, dyers, painters, gunny-makers, chucklers, sawyers, shepherds, oilmongers, ironmongers, shoemakers, potters, basket-makers, butchers, toddy-drawers, etc.

Thus the scope of the tax was very wide: 'It is a poll-tax, a house-tax, a cattle-stall tax, and a caste-tax; the beggar is taxed because he is a beggar; the widow is taxed because she is destitute.'

The Board of Revenue gave much time and attention to a reform of this tax. It was realized that being virtually an income-tax, it should not be a fixed amount like the land revenue As the revenue from this tax was the largest in the Ceded Districts, a prolonged correspondence passed between the Board and the officers in charge of those districts Munro was the first to understand the nature of this tax.[1] There were three separate levies in those tracts the *moturpha* or profession tax, *veesabuddy* or tax on the income or profits of merchants and traders, and a tax on houses.[2] In Bellary the *veesabuddy* assessment was fixed for each taluk according to its population, production, consumption, trade, and the state of profit from trade and business, and the assessment was somewhat more than 10 per cent. of the aggregate gains. The merchants settled among themselves, by means of arbitrators, the relative proportion which each was to bear. They had to produce documentary evidence in support of their statements. Of course, differences of opinion arose between individual merchants, and the arbitrators had a very large part to play *Moturpha* was more difficult to assess It was supposed to be rated on the gains of each individual craft or profession, but in practice it was arbitrary. It was also difficult to assess these taxes according to the income of the year, and therefore assessment often became either too light or too heavy.

From the beginning, the Collectors felt the need for legal sanctions for taxation. In 1818, a regulation was made prescribing the mode of levying *moturpha* and *veesabuddy*, and this armed the Collectors with powers for punishing the frauds and correcting the abuses which occurred in the assessment of the tax.[3] It was also desired to incorporate the various imposts into one consolidated tax, but this was not easy.[4]

In Coimbatore and the West Coast, one of the articles subject to *moturpha* was tobacco. Soon after 1800, this tax was abolished, but a Government monopoly took its place. All cultivation of tobacco was prohibited except under licence.[5] This led to

[1] Munro's letter, 15 August 1807 (Revenue Consultations, 4 February 1808)

[2] Letter from the Collector of Bellary (Chaplin), 18 April 1812 In Cuddapah, a tax called *bazabab* was also levied, but it seems to have formed a subdivision of *moturpha* and was sometimes called *Chittur-moturpha*

[3] Regulation IV of 1818. [4] Letter dated 22 December 1812.

[5] Regulations VII and VIII of 1811.

smuggling on such a large scale that troops had to be employed to deal with it. The tobacco monopoly was abolished in 1852.

The question of *moturpha* formed the subject of correspondence between the Home Government and the authorities in India for about twelve years, and 'after an inexcusable delay on the part of the Madras authorities in furnishing the information which had been repeatedly called for,'[1] the matter was seriously taken up after 1853. J. F. Thomas, Member of Council, recommended its abolition and pointed out that the resulting loss of revenue would be made good by the increasing prosperity of the non-agricultural classes. 'Their advancing wealth', he wrote, 'would extend the market and enhance the value of all products of the land, and better prices would then be obtained by the ryot and greater stability be thus given to land revenue.'[2] The other Members also agreed, but the Governor (Sir Henry Pottinger) advocated the retention of *moturpha*.[3] The Governor-General (Dalhousie), while condemning the tax as 'oppressive, detestable' and 'indefensible in principle', and while agreeing that it 'should be abolished wholly and unreservedly', suggested, nevertheless, that its abolition should be deferred in view of the actual financial condition of the Empire.[4] The Court of Directors considered the tax to be 'arbitrary, irregular and undefined, resting (except as regards the *veesabuddy* of the Ceded Districts) on no law, but merely on ancient usage, and thus affording to native officers employed in their collection ample opportunities of oppression and extortion, of which it is in evidence that they largely avail themselves'. They also pointed out that the tax was 'confined to one Presidency, which is subject to at least as heavy a pressure of taxation as any other part of India, and even there whole districts and parts of districts and particular classes of people are entirely exempt'.[5] They accordingly ordered its total abolition 'at such time and in such manner as may seem expedient'. During the Mutiny, the Inspector-General of Ordnance advocated the immediate abolition of *moturpha* 'as a measure calculated to imbue the native soldiers with a full sense of the value of British rule and as tending to place the military system on a sound footing'.[6]

Moturpha was abolished in 1861, when the licence-tax was instituted, but that was not the end of it in Madras. Even to this day, *moturpha* survives in the municipal areas of the Presidency in the form of a graduated tax on arts, professions and callings.

[1] Dispatch from the Court of Directors to the Government of India in *Correspondence relating to East India Affairs* (1857), p. 12
[2] Minute dated 23 April 1853
[3] Minute dated 28 April 1853.
[4] Minute dated 26 May 1853.
[5] *Correspondence relating to East India Affairs* (1857), p 13.
[6] Revenue Consultations, 30 November 1858

§3. *Sea-Customs*

So long as a universal system of inland duties continued, no other non-agricultural tax had any chance of developing, but with the abandonment of transit duties between 1836 and 1844, such heads of revenue as sea-customs, salt, opium and *abkari* began to develop. We shall now proceed to trace the growth and administration of these taxes.

Even in early British days, customs duties were a source of state revenue, but each presidency had its own customs regulation and organization. In Bengal this subject was administered by the Revenue Department till 1793, when it was transferred to the Commercial Department Regulation IX of 1810 systematized the customs tariff of the Presidency of Bengal Import and export duties were fixed at 5, 7½ and 10 per cent according to the nature of the goods. Articles like bullion and coin, horses and timber used for ship-building were exempted from the duty The exports of grain, precious stones and a few other articles were left free In 1811 heavier duties were imposed on goods carried in foreign ships engaged in export or import trade, and thus a preference was given to British shipping At that time, the Navigation Acts had full sway in England In 1815 woollens, metals, marine stores and other manufactured goods from the United Kingdom were declared duty-free provided they came in British-registered or Indian-built ships, but wines and spirits were subject to the normal duty These provisions gave an advantage to manufactured goods from Great Britain It must be said in fairness to the Company that attempts were also made to place British and Indian goods on the same footing. But it did not benefit Indian goods as the trade in, and the manufacture of, these goods were hampered by heavy inland duties and lack of transport facilities. Further, as was proved to the Select Committee of the House of Commons in 1832, the coasting trade of India was greatly discouraged. Raw silk exported from Bengal to Madras in a foreign bottom had to pay a duty of 31 per cent., but if exported to America in the same vessel it got a liberal refund.

In 1836, when the inland duties were abolished, the customs tariff in Bengal was thoroughly revised. Fresh duties were imposed on several kinds of British goods; metals and marine stores had to pay 3 per cent. and woollens 2 per cent The duty on British cotton and silk piecegoods, cotton twist and yarn was raised from 2½ to 3½ per cent. All other articles had to pay 3½ per cent. Products of foreign countries had to pay double the above rates. The export tariff was also revised and greatly simplified, the number of enumerated articles having been reduced from 234 to 15, of which six were exempted from duty. In 1843, the import duties raised at the northern and western land

frontiers of upper India were abolished, except those on salt and cotton.

In Bombay, customs duties were very low until 1813 when the duty on imports in foreign vessels was raised from 3½ to 4½ per cent, and a higher duty was levied on foreign goods. The duty on exports was fixed at 3½ per cent. In 1815 a preference was given to British goods, somewhat on the lines of the preference given in Bengal. In 1827 the customs tariff was revised by a committee.

The customs regulations of Madras were embodied in a code in 1803 which was based on earlier rules and regulations dating from 1784. A general duty of 6 per cent was fixed upon imports in British, Asiatic or American vessels and 8 per cent. if imported in ships belonging to other foreign nations. Several articles were allowed duty-free, and grain had to pay 3 per cent. if imported from outside the Bengal Presidency [1]. On exports the duty was 6 per cent. if sent in British, Asiatic or American vessels and 8 per cent. if in other foreign vessels [2]. In 1808 a duty of 5 per cent. was imposed on all grain imported into Madras by sea. In 1812, the general import duty on goods imported in British, American or Asiatic vessels was raised to 8 per cent. An export duty was also levied on goods going out of the subordinate ports. But at Madras only articles imported in foreign vessels were charged. Further modifications were made from time to time, and larger preferences were given to goods coming in British bottoms.

A Committee of the Government of India reported in 1836 that the want of uniformity between the rates charged in the different parts of India was a great handicap to trade, and recommended the unification of the different customs tariffs. The loss resulting from the abandonment of the inland customs had also to be made good. Accordingly in 1845, the tariffs of the three presidencies were made uniform, but duties were still charged on goods coming from ports in other parts of India. Imports of British goods were charged 5 per cent. if carried in British vessels and 10 per cent. if in foreign vessels. Double these rates were charged on foreign goods in British vessels and four times, if carried in foreign vessels. Wines and liquors had to pay a higher duty.

In the meantime, the policy of free trade was being gradually adopted in England. In 1846, the duties on corn, which formed the first target for the free traders' attack, were abolished. In the same year the Company wrote to India urging the abolition of all export duties except on indigo, the abandonment of discriminatory duties as between goods imported in British and foreign vessels and the freeing of the port-to-port trade within the country from duties. In 1848 all duties on goods coming from other ports

[1] Regulation IX of 1803. [2] Regulation X of 1803.

in India were abolished, and India became more or less a free trade unit. The preference given to goods carried in British vessels was also given up. In 1850, the coasting trade of India was thrown open to ships of all nations. But the export duties were not abolished. The total customs revenue of India in 1856-7 was Rs. 2·2 crores, of which nearly Re. 1 crore came from the duty on imported salt.

§4 *Salt Tax*

Being a tax handed down from time immemorial, the salt tax was levied by methods which varied from province to province, and from district to district.

In Bengal, salt was a Government monopoly from the days of Warren Hastings, who put into operation a scheme under which the salt-producing tracts were divided into separate agencies, each under a civil officer or agent working under instructions from a Comptroller at Calcutta The *melangis* or salt-makers received annual advances from the agent binding them to deliver all their salt to the Government at an agreed price The agent stored the salt and sold to wholesalers at prices fixed by the Government. In this transaction, a profit of about Re 1-8 per maund accrued to the Government. Cornwallis, in 1792, established the system of salt sales by public auction in Calcutta, and this resulted in a large increase of revenue He also made a set of regulations for the protection of the melangis, and this was embodied in a code, Regulation XXIX of 1793

From the first, there was much opposition to this system of monopoly. Philip Francis attacked it and favoured free trade in salt. Parliamentary committees disapproved of it several times In 1832-3 Parliament conducted a searching inquiry into the salt duty in India. As a result, the monopoly was disapproved, and other modes of collecting revenue from salt, namely an excise duty on salt manufactured in Bengal and a duty on importation, were suggested The excise was expensive to collect, but an import duty was much cheaper and more convenient. The salt duty brought in a revenue of about £1,600,000 annually, and to abolish the Government monopoly would have meant losing this large revenue. The Committee finally reported in 1836 that, although the salt monopoly was defective in many ways, the same amount of revenue could not be collected with equal security under any other system. They, however, recommended that the periodical auctions should be abolished and that the *golas* (stores) should be open for sale at all times, that the price to be charged should be the cost *plus* a fixed duty, that the importation of salt should be permitted, and that imported salt should be charged only the same duty as that charged on the Company's salt.

Most of the reforms suggested by the Committee had already

been given effect to by the Government of Bengal. A large import trade in salt had been growing since 1817. The auction sales were discontinued in 1836, and sales at fixed prices were made in unlimited quantities. The duty on foreign salt was fixed at Rs. 325 per 100 maunds, in 1836. Salt was allowed to be bonded under certain rules As imports increased, local manufacture diminished, and in 1848 the large salt agency of the Twenty-four Parganas was closed.

Attempts were also made to substitute an excise duty for the existing system of Government manufacture. Several salt works were opened by companies, assisted by the Government. The system of private manufacture subject to an excise gradually grew, but salt manufacture by the indigenous process was prohibited. Importation also diminished for some years after 1850, and private manufacture was not ample Owing to the shortage thus caused, the Salt Board reopened the salt agency of the Twenty-four Parganas in 1855 and, while in the eastern portion salt was manufactured by the Government, in the western portion there was private manufacture.

But the gospel of *laissez-faire* was growing popular The India Act of 1853 originally contained a clause declaring the continuance of salt monopoly to be unlawful, and the Court of Directors, reading the signs of the times, instituted an inquiry into the whole question. G Plowden, who came out as Salt Commissioner in 1853, made an elaborate inquiry and reported in 1856 disapproving of the Government monopoly and commending the system of excise In the meantime, imports went on increasing and soon became the chief source of supply in Bengal and Assam In 1854-5, the net revenue amounted to £1,418,800

In the Madras Presidency, the right of manufacturing and selling salt was at first farmed out The question of monopoly was first mooted in 1799,[1] but for some time a monopoly was considered impracticable by a majority of the Board of Revenue, and the collectors generally preferred an excise. However, the Government soon decided upon a monopoly on the Bengal model. In 1805 a Regulation[2] was passed establishing a monopoly in all parts of the presidency, except Malabar and Kanara, to which it was afterwards extended in 1807. The manufacture of salt was conducted exclusively on account of the Government, and the sale price was fixed at Rs 70 per garce, including duty and all costs of manufacture. In 1809, the price was raised to Rs. 105 but, as that was not found profitable, it was reduced to Rs. 50. In 1844 inland duties in the presidency were abolished and, in order to make good the loss, the price of salt was raised to Re. 1-8 per maund or Rs. 180 per garce. Between 1850 and 1859, it was Re 1 per maund. Plowden criticized the salt monopoly of

[1] Letter of the Board of Revenue dated 2 September 1799.
[2] Regulation I of 1805 dated 18 September.

Madras and recommended that an excise duty should be substituted; but nothing was done immediately to implement this suggestion.

In the Bombay Presidency salt was obtained by evaporation, chiefly of sea-water. Some of the salt works belonged to the Government, and others were privately owned subject to a land rent. In 1823 it was proposed to establish a salt monopoly, but this was negatived by the Home Government. In 1836 the transit duties were abolished, and an excise duty of 8 annas per maund on salt was imposed together with an import duty of the same amount. This resulted in a loss to the Government, and therefore in 1844 both the excise and the import duty were raised to Re. 1 per maund But it was subsequently reduced to 12 annas The collection of the excise duty was made by the Collector of Customs in Gujarat and Konkan. In 1855 it came under a Commissioner who also looked after the customs revenue The total net revenue from salt in the Presidency in 1852-3 amounted to about Rs. 23½ lakhs. Plowden agreed with the Government that an excise system was better than a monopoly He approved of the system in Bombay, but suggested that the Government should give up the manufacture of salt.

In the North-Western Provinces salt came from the salt lakes in Rajputana, especially the Sambhar Lake. A customs line was maintained across the country in order to levy a duty on the salt passing into British India [1] In the Punjab salt came from the salt ranges, and here too a customs line was maintained in order to keep out the red salt from Peshawar. In British Burma there was both an excise duty on local salt and an import duty on foreign salt.[2]

The salt revenue of British India in 1857-8 was £3,240,978, or about 10 per cent. of the total revenue Of this about £1,000,000 was collected in Bengal and half that amount in Madras. The incidence of the tax varied from province to province. In 1858 the rates were as follows · Bengal, Rs 2-8 per maund; the North-Western Provinces, Oudh and the Punjab, Rs.2; Madras, 14 annas; and Bombay, 12 annas

Repeated controversies raged both in India and in England regarding the justice of the salt monopoly Critics pointed out that it was anti-social to raise revenue on such a common article of consumption, and that it pressed heavily on the poor. The arguments on the other side were that the people of India had always been accustomed to such a tax and that it gave the Government a sure revenue with the least trouble and expense. In 1853 a resolution was passed in the House of Commons urging the abolition of the duty, but the Government did not accept it in spite of

[1] See ch xii.
[2] *Moral and Material Progress* (1871-2), p. 89.

John Bright's strictures against the tax as 'economically wrong and hideously cruel'.

§5. *Opium*

Next to land revenue, opium was the most productive source of revenue in 1858, and its problems were less intricate than those of land revenue.

The opium revenue was raised by Government monopoly in Bengal and by an export duty in Bombay, and both methods were nearly of equal importance. The cultivation of the poppy was carried on in certain districts of Bengal under a system of advances. The crude opium was prepared for the market in Government factories and was sold by auction at Calcutta The difference between the cost price of the opium and the auction price constituted the revenue The opium exported from Bombay, called 'Malwa opium', came from the protected states of central India. The British Government had no control over the quantity produced, but regulated its export by levying a heavy export duty. Most of the exports went to China

As early as 1838 the opium revenue came to Rs 2 crores. In spite of the disturbance caused by the Chinese wars in 1839 and 1847, the revenue went on increasing and amounted to Rs 5 crores in 1855-6. After 1852, various changes were made in the opium policy, and the revenue fluctuated widely. According to Sir John Strachey, the absence of a settled policy was the cause of the fluctuations. The cultivation and sale of opium were made a Government monopoly soon after the British came into possession of Bengal At first it was managed on the contract system, but in 1799 it was found more profitable to manage the trade directly through the agency of the Government's own officers There were two such agencies in Bengal under European agents assisted by a large staff, and their work was supervised by the Board of Revenue. These agents entered into contracts annually with the cultivators, who were bound to deliver all their poppy juice at fixed prices. There was no compulsion to cultivate, but having stipulated with the agent, the ryot was bound to cultivate the full acreage stipulated for, and default meant heavy penalties. Opium was cultivated also in the Malwa states in central India, and in order to place this supply on an equal footing in respect of price a heavy duty was placed on Malwa opium at Bombay, its sole port. Up to 1842, the duty was only Rs. 125 per chest, but later it was raised to Rs. 400 in order to equalize the burden on the two categories of opium.

There was considerable opposition to the Government monopoly of opium. In 1832-3 a Parliamentary Select Committee went into the matter, and pointed out its many blemishes, but could not discover any method by which revenue from opium could be raised more easily and efficiently. Further, as the duty was

eventually shifted on to the Chinese consumer, the question did not become very prominent in India. In England, however, it continued to rouse the ire of humanitarians. John Bright said in Parliament that 'a more dreadful traffic or one more hideous in its results never existed except perhaps the transportation of Africans from their own country to the continent of America'.

§6. *Abkari*

Abkari was the excise duty imposed on the manufacture and sale of alcoholic liquors and intoxicating drugs in India. It existed in the days of the Hindu and Mohammedan rulers, and was farmed out to the highest bidder. The Company continued the same system, and the chief articles taxed were arrack and toddy. The Collectors administered this tax and issued licences to open shops. In Bengal, till 1829, the Collectors received a commission on the amount collected under *abkari*. When this was stopped, the collections fell off.

In the Madras Presidency, the exclusive privilege of manufacturing and selling alcoholic liquors has always been farmed out. The Collector of each district, in consultation with the Board of Revenue, decided the places where the distillation and sale should take place and the retail prices of the liquors. In 1857 the total excise revenue of British India was about Rs. 84 lakhs, of which Madras contributed about Rs. 30 lakhs.

§7. *Stamps*

The stamp duty was originally imposed to make up for the abolition of the old police tax.[1] At first stamped paper was needed mainly for legal proceedings, but later it became necessary for commercial transactions like bills of exchange, bonds, hand-notes and receipts. Deeds of land transfer had to be written on stamped paper. Thus, with the expansion of trade and business, the stamp duty became more and more productive and bade fair to become one of the most reliable of the secondary revenue heads. In 1857-8 it contributed Rs 45·6 lakhs to the Treasury.

§8. *Miscellaneous*

Of the minor imposts that existed in the early days of British rule, one was a tax on pilgrims; but later on owing to opposition it was abolished. There was a capitation tax in Burma which in spite of opposition was continued down to quite recent times.

Numerous other small imposts were levied in those days, and many of them were as unproductive as they were vexatious. Some went to the benefit of the village officers. When subsequently

[1] In Madras, however, the object was 'to discourage the preferring of litigious complaints'.

these officers came to be paid by the Government, the taxes were not all abolished. In the Madras Presidency many of them were grouped together under the head 'Small Farms and Licences'. Certain privileges like the measuring of grain and other articles, grazing cattle and so forth, were leased out to individuals for an annual payment.

Similar taxes existed in other provinces also. The wheel-tax, i.e. a levy on carts was almost universal, and so were *rahadari* imposts, boat-tax, *pulbandi* (collection for the construction and repair of bridges), *pushtabandi* (for the construction and repair of embankments), *chowkidari* (fund for the payment of village watchman), and many others

Owing to the lack of adequate information, it is not possible to form any accurate estimate of the proceeds of these various taxes before 1858.

CHAPTER IV

THE GROWTH OF EXPENDITURE

§1. *Introductory*

THE East India Company was essentially a commercial concern. Its sole business till 1765 was trade In that year an extensive territory came under its control, and it was soon forced to take up the duty of governing; but trade still continued to be its major concern, and no attempt was made till 1813 to separate the political from the commercial accounts. The imports were not sufficient to pay for the exports, and the territorial revenues of Bengal had to be used for the Company's 'investments' in India and for carrying on warfare with hostile Indian powers. Until 1833 the Governor-General had a dual function to discharge. He had to manage a large trading concern on behalf of the Court of Directors. He had also to carry on wars and diplomatic negotiations on behalf of the Government of Great Britain. The Directors were principally interested in their profits from trade, and repeatedly insisted that part of the territorial revenues should be used for financing the exports from India. Certain amounts had also to be paid into the British exchequer, and several wars, in which neither India nor the Company was interested, had to be financed from Indian revenues. As a result, the administration of India became a very difficult matter and several of the Governors-General had a rather unpleasant time.

In 1833 the prime concern of Government in India became political, and the Company's commercial preoccupations ceased. Thus finance was liberated from commerce, and a certain amount of order and system was introduced into the financial administration. There was a Finance Department in Bengal from 1810, but it was subsidiary to the 'Territorial' or 'Public' Department. There was no separate Financial Secretariat till 1843. Each of the three presidencies had its own Accountant-General, and in 1834 the Accountant-General of Bengal became the Accountant-General of the Government of India. From 1846 this new post was held by the Financial Secretary, and for the province of Bengal a separate Accountant was appointed. From that time the heads of the accounts section in Bombay and Madras came to be called Accountants. Till 1858 there was no unified Finance Department. Lord Ellenborough[1] tried to introduce a

[1] Governor-General, 1842-4.

regular budget system, but the Court of Directors did not want any drastic change.

The Company's accounts could not have been bad in early days, but subsequently, with the decline of the commercial side, the system of accounts seems to have deteriorated. The Company used a system of double entry, but it was spoiled in later days by 'a variety of obsolete entries and irrecoverable balances, and above all by a vast number of complicated and unnecessary inter-presidential and inter-departmental payments and advances'.[1] There was no proper budgeting; and the audit was inefficient. According to Sir Charles Trevelyan, who was intimately acquainted with the Company's administration, 'The accounts were many years in arrear; they were never closed and certainly never audited and never looked up. It was mere red-tape and circumlocution and rubbish'[2] The result was that the normal state of the Indian finances was one of deficit.[3]

We shall now proceed to trace the causes of the increase of expenditure during the period.

§2. *Defence*

The expenditure of the East India Company increased from £1,787,653 in 1765-6 (the year in which the *Diwani* was granted) to £39,570,998 in 1857-8, the year in which the Mutiny broke out. The revenue also increased correspondingly from £2,000,674 to £31,706,776. Between these periods large extensions had taken place in the territorial jurisdiction of the Company, and the increase was largely due to them. But from 1833 territorial acquisitions had been comparatively unimportant, and even after that date revenue increased from £18 millions in 1832 to £31 millions in 1857-8. This increase was due partly to the expansion of existing revenues and partly to the imposition of new taxes.

The principal single head of expenditure in the period before 1858, as now, was defence In 1856-7 the army and marine charges were responsible for about £15 millions out of a total expenditure of £31·9 millions—nearly 50 per cent. In 1857-8 it rose to £21 millions, and in 1858-9 to £25·5 millions. Thus half the revenue of India was, even in normal years, spent for defence purposes.

From the beginning till as late as 1894, separate armies were maintained by each of the three presidency Governments. The Madras army originated first, and grew on account of the wars with the French in the eighteenth century. It was composed mostly of Indian sepoys; the European soldiers were few and were mostly drawn from the ships. When Bengal later became the scene of fighting, a new army was formed there, and the

[1] Sir Charles Trevelyan's budget statement, 1864.
[2] *Select Committee Report* (1873), p. 33. [3] Infra.

assumption of the *Diwani* by the Company made a standing army absolutely necessary. The Bombay army was at first small, but later, when wars broke out with the Marathas, the western presidency too was called upon to increase its military equipment. The Court of Directors, from the first, kept a firm control over these armies.

In 1808 the strength of the three armies stood thus [1]

	Europeans	*Indians*	*Total*
Bengal	7,000	57,000	64,000
Madras	11,000	53,000	64,000
Bombay	6,500	20,000	26,500
Total	24,500	130,000	154,500

Of these, four regiments of cavalry and five battalions of infantry belonged to the British Government, whilst the remainder, viz. three regiments of European infantry, six battalions of artillery, 16 regiments of Indian cavalry and 118 battalions of Indian infantry, belonged to the Company

Subsequently the numbers increased owing to the more extended warfare in central and northern India In 1856, on the eve of the Mutiny, the establishment of regular forces was as follows [2]

	Bengal	*Madras*	*Bombay*	*Total*
Regiments . British cavalry	2	1	1	4
Battalions · British infantry	15	3	4	22
Company's European infantry .	3	3	3	9
Battalions · Artillery (European and Native) . .	12	7	5	24
Battalions : Native infantry .	74	52	29	155
Regiments · Native cavalry	10	8	3	21

In addition to these, there were 18 regiments of what were called irregular cavalry in Bengal and a few in Bombay; and there were local troops in Assam, Arakan and other places Altogether the Company had in its pay 347,351 men, of whom 45,522 were Europeans, 262,852 Indian and 38,977 Indian military police [3]

When the army increased in numbers, expenditure also increased. In 1765-6 the total military expenditure of all the presidencies was only £1,447,576. By 1793 the expenditure became £3 millions. By 1834-5 it had risen to £7 millions and by 1846-7 to nearly £12 millions. After that it remained fairly stationary till the Mutiny.

No doubt the increase in expenditure was mainly due to the increase in the territory under the Company, but various special

[1] G. Chesney, *Indian Polity* (1868), p 283 [2] ibid., p 284
[3] *Report of the Royal Commission on Indian Expenditure* (1900), vol IV, pp. 78 9

causes contributed to it. One of these was the enhanced proportion of European troops to Indian. At first the Indian army was mostly composed of sepoys, but gradually the strength of the European troops increased. In 1793 the proportion between the European and the Indian elements was 1 3·71; but by 1832-3 it had changed to 1 . 1·94.[1] Subsequently the Indian soldiers increased in number, and in the year following the Mutiny (1858-9), the Indian army was composed of 106,290 Europeans and 196,243 Indians There was great difference of opinion among British administrators in India concerning the importance of the European element in the army, but it was gradually accepted as a settled fact.[2]

As the size of the European wing of the army increased, its pay and conditions of service were steadily improved in order that the right sort of men might be persuaded to join. Thus there arose considerable disparities between the pay and prospects of European and Indian troops. In 1830 the European cavalry in Bengal cost £100 per head, while the Indian cavalry cost only £64; in the case of the artillery, the cost was £61 and £28 respectively; and a similar difference existed in the matter of the infantry also When Sir Charles Napier was Commander-in-Chief, he considered the barrack accommodation very defective, and at his instance, broad and lofty buildings were constructed all over the Punjab The barracks in Calcutta and Allahabad were also substantially improved The Indian soldiers, however, had no barracks; they hutted themselves.[3]

The military charges of the year 1856-7 were distributed as follows .[4]

Army in India	11,500,000
Home charges .	1,990,000
Military works (average)	560,000
Estimated contribution to military pensions fund (about) .	100,000
Political charges (about)	100,000
Total	14,250,000

The charges in England were incurred on account of (1) furlough and pension allowances, (2) payments to Her Majesty's Government on account of the Queen's troops serving in India, (3) retiring pay, pensions, etc. of Her Majesty's troops, (4) passage of troops, (5) passage outfit of officers on the

[1] See P N Banerjea, *Indian Finance in the Days of the Company*, pp. 352-60.
[2] Ibid , pp 352-3.
[3] See *Select Committee Report* (1873), pp 1-2
[4] *Report of the Royal Commission on Indian Expenditure*, vol. IV, p. 78

staff, (6) charges of the recruiting depot at Warley, (7) the expenses of the Military College at Addiscombe and (8) pensions under the regulations of Lord Clive's Fund.

The East India Company maintained its own navy. It was created under the charters of Charles II and James II and was at first meant for defending its own possessions against interlopers This was necessary, because in those days the Royal Navy was unable to maintain a considerable force in eastern waters The Company's force developed into the Bombay Fleet, and for long its expenses were met from the revenues of the Bombay Presidency. Subsequently a royal force was established in Bengal, and the two forces were later amalgamated to form the Indian Navy. The function of the Navy changed from time to time Originally intended to ward off interlopers, it was later used to suppress piracy in the Arabian Sea and in the Indian Ocean. Subsequently it co-operated with the Royal Navy in all the eastern expeditions of Britain. In 1857 the Indian Navy consisted of 24 steam vessels, 18 sailing ships, 19 river steamers and three surveying vessels. The total marine charges in the same year came to £2,370,030, of which £553,267 was spent in Bombay [1] Part of this expenditure was due to the Mutiny, the average expenses of the Navy before the Mutiny may be put at £790,000 [2]

The Company's military and naval establishments served not only the needs of India, but also the general interests of the British Empire in the East Thus the two wars with China (1839 and 1856) and the expeditions to Persia, Borneo and New Zealand were undertaken with the help of one or both of them, and the expenses were largely borne from Indian revenues

§3 *Civil*

The civil expenditure of India increased almost as rapidly as the military; it rose from £400,000 in 1765 to £23,000,000 in 1857. This increase was due mainly to the growth of territorial charges and to the increase of administrative machinery as has been explained in the first chapter; but various other factors also contributed to it.

An important cause of the growth of civil charges was the employment of numerous highly-paid officers At first the higher officers were few and their salaries small. In 1744 a writer received only £5 per annum, factors £15, junior merchants

[1] *Royal Commission on Indian Expenditure*, pp. 114-5

[2] ibid , p 78. Several writers of the time recognized the wastefulness of the Government in this line I T Pritchard, *Indian Administration* (1869), vol II, pp. 190-2, described the Navy as ' an establishment than which probably none more utterly useless was to be found within the limits of the British Empire and its dependencies '. ' Costly military and naval establishments were devouring the resources of the Empire The superfluous part of the one was an actual source of danger to the state, the advantage derived from the other was wholly out of proportion to its cost '

£30 and senior merchants £40.[1] But in those days the Company's servants were allowed to engage in private trade and to receive presents, and many of them retired with large fortunes. These practices were subsequently discouraged and they were expressly prohibited by the Regulating Act of 1773; to make up for the loss of income, the officers of the Company were allowed a commission out of the revenue collected.

The Regulating Act raised the salaries of the superior officers of the Indian Government. The Governor-General's salary was to be £25,000 per annum, and each member of the Council was to receive £10,000 Later, the salary of the Governor of Madras was fixed at £10,000 The salaries of Collectors and judges and other civil servants still remained low, and according to all accounts there was in those days a great deal of corruption among the officers of the Government, both high and low, Indian and European.

Cornwallis was appalled by the corruption that was rife among his officers, he found that almost every Collector had been 'deeply engaged in commerce' in the name of some relative or friend, and that this often made the Collectors 'the most dangerous enemies of the Company's interests and the greatest oppressors of the manufacturers'.[2] He felt that higher salaries were necessary to induce able men to serve in a country where health was precarious and the temptations for corruption abundant. On his recommendation, therefore, the salaries of the civil servants were raised, and it was laid down by an Act of Parliament in 1793 that an officer would be eligible for a salary of £500 per annum, after three years' residence, £1,500 after six years, £3,000 after nine years, and £4,000 after twelve years. In addition to this, every Collector received a commission of one per cent of the revenue collected in the district.[3]

Nor was this the only way in which Cornwallis increased expenditure He not only raised salaries but increased the number of offices by separating the judiciary from the executive and by replacing low-paid Indian officers by highly-paid European officers For performing higher judicial work in the districts, Cornwallis appointed a separate officer as judge Thus there came to be two highly-paid officers in every district in place of the one low-paid officer of the past. Till that time, criminal justice was administered by Indian judges in the Indian way; the system was indeed tardy and sometimes unjust, but it was not expensive, whether to the Government or to the clients. Cornwallis dismissed all

[1] L. S S. O'Malley, *The Indian Civil Service* (1931), p. 9.

[2] C Ross, *Correspondence of Marquis Cornwallis* (1859), vol. I, p. 238

[3] A Collector in a fairly large district got from Rs 1,200 to Rs. 1,500 as salary and about Rs 2,000 as commission The highest commission that any Collector could get was fixed at Rs. 27,500, per annum. Liberty of private trade was allowed only to Commercial Residents and Agents See O'Malley, op. cit., p 37.

the Indian judges and transferred criminal jurisdiction to the newly-appointed civilian judges.[1] The zilla judges (as they then came to be called) thus became the senior officers in the districts, and a new system of judicial procedure was adopted. In order to induce them to be upright, a high salary ranging from Rs. 2,300 to Rs. 3,000 per mensem was given to the judges. Thus the administration of justice became expensive, and the cost of litigation increased enormously [2]

The policy of displacing Indians was persisted in by the successors of Lord Cornwallis, especially Lord Wellesley. But Lord William Bentinck initiated a more liberal policy towards Indians, actuated as much by motives of economy as of equity, and thus effected a retrenchment which was sorely needed The Charter Act of 1833 laid down that no native of India should, by reason of his religion, place of birth, descent or colour, be disabled from holding any place, office, or employment under the Company. But this had no immediate effect in regard to the higher offices More munsiffs and sadr-amins were appointed, and the new post of deputy collector was created in 1837. As the salaries attached to these offices were comparatively low, there was some lightening of the financial burden.

The exclusion of Indians from the higher grades of the service was hardly justified; for there was every indication that the few Indians employed as judges discharged their duties satisfactorily. Sir Edward Ryan, Sir Erskine Perry, Sir Charles Trevelyan and others, who held responsible positions in India, have given glowing reports of the integrity and capacity of the Indian judicial officers Their claims for higher posts were repeatedly pressed before Parliamentary committees, but nothing came out of it at the time.[3]

Not only did the Company's Government pay rather high salaries while their officers served in India, but also paid them munificent gratuities and pensions on retirement. Thus each of the Governors-General received an annuity of about £5,000, and Warren Hastings was given in addition his litigation expenses, which came to more than £71,000 [4]

[1] Sir Charles Trevelyan says that Lord Cornwallis ' proceeded on a principle of mistrust and reduced the employment of natives to the lowest footing '—*Select Committee Report* (1873), p. 61. Sir John Kaye suggests that it was rather ' mistrust of the Europeans which deterred Cornwallis and his advisers from mixing up the two agencies in the general administration of the country '—*History of the Administration of the East India Company* (1853), p 420

[2] There still remained low-paid munsiffs and amins, but the highest salary received by an Indian officer in 1827 was Rs 250 per mensem

[3] For the views of Sir Edward Ryan and Sir Erskine Perry, see *First Report on East India Affairs* (House of Lords), 1853 For the views of Sir Charles Trevelyan, see the *Select Committee Report* (1873), p 67. Speaking of the Indian officers at Madras, he said· ' They show a solidity of character and a thoughtfulness which I have never seen exceeded in any people, European or Indian.'

[4] P N. Banerjea, op cit , pp. 332-3.

§4 *The Growth of the Public Debt*

Another important cause of the rise of public expenditure in India was the growth of the interest charges on the public debt. In modern times, a good portion of the public debt of India has been raised for productive purposes and the interest on it is paid from the income accruing from the undertakings But the public debt of India before 1858 was raised mostly for unproductive purposes like war Thus, as we shall see, every increase in the public debt was synchronous with some important war waged by the British Government in India. The genesis of the public debt is connected with the French wars in the south, but even after the many wars waged by Warren Hastings, the debt was only £2 millions in 1779-80 Soon afterwards, wars broke out with Mysore, and the debt increased to nearly £8 millions by 1793 By 1799, after the third Mysore War, it had mounted up to £12·8 millions Then came the wars of Wellesley with the Marathas and others, and by 1809 the debt amounted to £30·8 millions For the next five years it remained stationary, as there was no warfare during that period, but with the outbreak of war with Nepal and the Marathas, a large increase took place, and it stood at a little below £40 millions in 1819-20 Then followed a few prosperous years with the result that by 1823-4 the public debt was reduced by £5·2 millions. With the outbreak of the Burmese War, borrowing increased, and by 1828-9 the debt rose to £47·2 millions, of which £7·8 millions was floating debt Subsequently there was some improvement in revenues, and according to the terms arrived at when the Company retired from trade, a sum of £9·9 millions was paid out of the commercial assets of the Company to reduce the public debt In this way, the debt came down to £34 millions Soon there arose the wars with Afghanistan and the Sikhs, and the debt increased by leaps and bounds, by 1842-3 it rose to £40·4 millions and by 1848-9 it became £51 millions On the eve of the Mutiny the total debt of India amounted to £59,441,052. Thus the debt increased thirty-fold in three-quarters of a century

The great bulk of the public debt at the time was raised in India, and only a small portion in England. Out of the total debt of £59·4 millions in 1856-7, only £3·9 millions had been raised in England, the rest having been raised in India. At first the creditors even in India were almost entirely Britons, but by 1857 a third of the Indian public debt was held by natives of the country. The interest on the debt raised in England was high during the Napoleonic Wars; it was 5 to 6 per cent in 1804 and 1806, but subsequently it fell to 2½ per cent., where it remained till the Mutiny. In India the interest rates ranged at first from 6 to 12 per cent.; the usual rate was 8 per cent., but later it came down to 4 and 5 per cent.

In this connexion some explanation is necessary as to the nature of the Company's debt. Loans were raised partly for commercial purposes and partly for wars. These two categories of debt were not kept separate. The Company regarded its Indian possessions as an estate yielding an income Year after year the territorial revenues were used for the purchase of goods in India for export to England—transactions which were called 'Investments' in the Company's terminology—and the profits therefrom went to swell the dividend payable to its shareholders.[1] Warren Hastings and Wellesley complained about this system and showed that the demands for investments exceeded the resources of the country Owing to large deficits in certain years it was not possible to make provision for investments When the Company's trade monopoly in India was abolished by the Charter Act of 1813, the commercial and territorial accounts of the Company were separated, and they were shown in the accounts under two separate heads. Even after that, certain items of expenditure which were definitely commercial were charged to the territorial account

In 1834 the commercial activities of the Company ceased altogether, and all its assets and liabilities were transferred to the Government of India acting on behalf of the Crown. The Company was given credit for its paid-up capital of £6 millions, and the Government were to pay a 10½ per cent dividend for the amount annually, i.e. £630,000 This was to cease in 1874 when the Government of India were expected to redeem the stock by paying £12 millions A redemption fund was also started

The arrangement was highly advantageous to the Company and to Great Britain; for a good portion of the debts and liabilities thus transferred could have been legitimately charged to the Company's commercial assets or to the British exchequer [2] India gained least from the transaction. After deducting £2 millions for the redemption fund and paying liberal compensation to the commercial officers of the Company, there remained only just over £7 millions out of the assets of the Company, and this amount was employed for reducing the public debt The total payment of dividends on the Company's stock amounted to £25·2 millions by 1874, and this, along with the amount of £12 millions needed for redemption of the stock, entailed a total cost of £37·2 millions. This burden had to be borne by the Indian taxpayer.

[1] P N. Banerjea, op cit., pp 24-5. The total amount of such investments during the 15 years, 1766-80, was £12 3 millions.

[2] See in this connexion a letter by Charles Grant dated 12 February 1833, which raised the question 'whether the whole of the Company's commercial property be not legally responsible for those debts and engagements which have been contracted in the Company's name for political and territorial purposes, and whether it will not continue so responsible even though the Company should be wholly deprived of their political powers and functions'—*Charter Papers* (1833), p. 41.

Several of the wars and embroilments which swelled the public debt of India were undertaken, not in the interests of India, but either in the imperial interests of Britain or in the commercial interests of the Company. Thus the Afghan War and the two Burmese Wars entailed an expenditure of £29 millions, and the expeditions to China, Persia and Nepal cost about £6 millions. Ceylon, Singapore, Hongkong and Aden were acquired by the expenditure of Indian revenues. The Company's commercial expeditions to different parts of Africa, China and the Straits Settlements were also undertaken with the territorial revenues of India, and the same resources were utilized for keeping trading establishments in those parts Such diversion of funds for military and commercial commitments with which India had no connexion was one of the potent causes of the frequent budget difficulties, and consequently of the piling up of debts described above. Many of the items of expenditure just mentioned ought to have been charged to the revenues of Great Britain or to the commercial assets of the Company.

It must be said in fairness to the Company that its Directors repeatedly protested against the diversion of Indian revenues for extra-Indian purposes unconnected with Indian interests Thus in 1842, having regard to the fact that the Afghan War was resolved upon by the British Cabinet, the Court of Directors firmly resolved that 'the whole expense of the (Afghan) war ought not to be thrown on the people of India, but that a part of it should be borne by the exchequer of the United Kingdom'. This resolution was communicated to the British Government by the Chairman of the Company, but it received little attention [1] John Bright, in the House of Commons, and Sir George Wingate, in a pamphlet written in 1859, inveighed against the injustice involved in such transactions [2]

§5 *Home Charges*

Another cause of increased expenditure was the large disbursements made in England from time to time on account of expenses incurred there Reference has already been made to the annual 'investments' of funds for financing the export trade of the Company, but this came to an end in 1814. The charges which we shall now consider were incurred on account of what are called the 'Home Charges'.

In the early days, such charges were meagre, but, as the administrative machinery in India expanded and as more and more English soldiers were recruited for the Indian army, the expenditure in England increased rapidly. From 1814-5 to

[1] *Sixth Report of the Select Committee of the House of Commons* (1853), app, p 193

[2] Bright's speech on 1 August 1858, Major Wingate, *Our Financial Relations with India* (1859), pp 17-20

1828-9 the annual average of the Home Charges amounted only to about £1·7 millions. When the charter was renewed in 1833, an effort was made to reduce these charges, but instead of falling they increased to £2 millions By 1847-8 they had risen to £3 millions, and after a slight reduction for a time the amount rose to £3·7 millions in 1856-7. In 1857-8, the year of the Mutiny, the amount doubled itself

The principal item of the Home Charges was called 'Charges-General' and comprised the expenses of the Board of Control; the salaries of the Court of Directors and the cost of establishments at the East India House; the maintenance of Haileybury College and the military school at Addiscombe; charges for the recruitment, passage and outfit of British soldiers and British civil, military and ecclesiastical officers; pensions; and gratuities, law charges and postal payments to the British Government

No doubt a part of the Home Charges was payment for services rendered, and such items as interest on debt and purchase of stores were reasonable But the whole of the expenditure on several military items need not have been charged to the revenues of India. Hence the criticism of Wingate and others that the Home Charges were a tribute from India to England. It is not necessary to discuss the point in this connexion, but one observation may, however, be made. Every item of the Home Charges may be justified as legitimate remuneration, and the whole charge may be justified as the price of peace and order in the country; but it will have to be conceded that such annual remittances had also undesirable consequences The burden was inevitable, and the peace and security that British rule brought to the country largely made up for it.

§6. *The State of Chronic Deficit*

The result of enhanced expenditure was the frequent occurrence of deficits What with the wars waged against powers within and without the country, and the increase of administrative expenditure and Home Charges, the revenues of India were put to a severe strain from time to time. Till about 1800, the annual revenues were found fairly sufficient to meet the expenditure, but about that time an ambitious military policy was launched by the Indian Government, and this resulted in frequent deficits in the budget. In nine out of the ten years between 1798-9 and 1807-8, the budget was not balanced, and between 1803-4 and 1806-7 (both years inclusive) the deficit amounted to £17 millions on an average. Sir George Barlow and Lord Minto were lovers of peace and economy, and as a result of their measures of retrenchment, the next five years showed a surplus. The war with Nepal and those with the Pindaris and the Marathas brought about deficits again. But after 1819 another period of improvement dawned, thanks to

the good offices of Lord Amherst.[1] But the Burmese War made matters worse, and there followed a long succession of deficits which totalled £15·2 millions in seven years. The strain was greatest in 1827-8. This deficiency was met chiefly by loans raised in India and by advances from the commercial to territorial accounts in England A total of £22·8 millions had to be raised in this way

It was at this juncture that Lord William Bentinck came out to rule India He effected a drastic retrenchment of expenditure, overhauled the whole Governmental machinery and repressed the tendencies to extravagance in the subordinate Governments. In this work he received strong support from the Court of Directors. The increasing employment of Indians in the services was a part of this policy

The next important period of financial strain was between 1838-9 and 1848-9, during which there was a deficit every year This was due chiefly to the war with Afghanistan and the campaigns in Sind, Gwalior and the Punjab The total deficit for the ten years from 1839-40 amounted to £50 millions The Government had to borrow for meeting this deficiency This was followed by a few moderately prosperous years There were deficits again in 1853-4 and 1854-5 But they were chiefly due to expenditure on public works of a remunerative character. The deficits swelled again during the Mutiny [2]

Thus the state of Indian finances was one of chronic deficit. If we take into consideration the period of 44 years from 1813-4 to 1856-7, there were surpluses in 13 years and deficits in 31 The surpluses amounted only to £8·8 millions, while the deficits came to £62·9 millions Hence the remark of James Wilson that 'the normal state of the Indian finances was one of deficiency of income and addition to debt' [3] As we shall see in the next chapter, the financial methods adopted in India were defective in many respects, and this was also partly responsible for the perpetual strain on the Indian finances.

[1] According to Sir Charles Trevelyan 'During the later years of Lord Amherst's administration, there was a perfect plethora of money; they did not know what to do with it, and they actually sent a circular round to all the civil servants asking the amount of their debts, with a view to pay them off and to relieve them from debt'—*Select Committee Report* (1873), p 21

[2] See App A

[3] *Financial Statement*, 1860 See also I T Pritchard, *Indian Administration* (1869), vol. II, p. 190 'India was in the condition of a country gentleman who had for years neglected to look after his affairs; or if he had looked after them, he had done so in such a slipshod and unpractical manner that he had failed to realize the extent to which he was involved. So long as he had a balance at his banker's available for current expenses, he cared not to inquire how his account was kept at credit Whether the money was realized by loans or mortgage of his property, he never paused to inquire'

CHAPTER V

THE CENTRAL GOVERNMENT AND THE PROVINCES, 1833-58

§1. *Financial Control of the Supreme Government*

As shown in Chapter I, the financial control of the Governor-General in Council over the whole of British India became legally complete in 1833. The revenues of India were thenceforth dealt with as a whole They were paid into the treasuries all over the country to the credit of the Governor-General in Council Indeed the collection was made as before by officers of the provincial Governments, but those Governments did it only as agents of the supreme Government. Except for some small local cesses levied in certain provinces for roads, schools and other local needs, provincial Governments became entirely dependent on the sums annually allotted for their expenditure by the supreme Government They were expressly prevented by the Act from creating any new office and from increasing their establishments without the sanction of the Governor-General in Council[1] As J B. Norton bluntly puts it: 'Even the increase of a rupee a month to two sweepers needed the sanction of the central Government'[2]

For carrying on such a minute control over the whole of the Indian Empire, the supreme Government had not the means; nor was such control possible in the circumstances of the country at the time The Governor-General in Council was not constituted as a proper central Government. The supreme Government originated from the Presidency of Bengal, and even after its designation was changed to 'the Governor-General of India in Council', it continued to administer Bengal until a Lieutenant-Governor was appointed for the province in 1854 The Council of the Governor-General was drawn from the Bengal service, and this practice continued even after 1854. Thus it was that in those days the exercise of authority by the Governor-General appeared to the Governments of Madras and Bombay almost as if one presidency was trying to impose its will upon the others.[3] Things might have been different if the Secretariat of the Governor-General in Council had been recruited, as now, from the different provinces. This appears to have been the intention of Parliament in 1833 but, as Trevelyan points out, it was not possible to break

[1] Charter Act (1833), s 59.
[2] *Topics for Indian Statesmen* (1858), p. 181
[3] *Proceedings of the Madras Legislative Council*, 17 February 1871.

the established tradition since the existing vested interests were too strong [1] Therefore, there was no member on the Council possessing local knowledge of the other presidencies. This defect was pointed out by many witnesses before the Joint Committee of the House of Lords in 1852, and the appointment of representatives from Madras and Bombay was the result.

The circumstances of the country also made it difficult to control the other provinces from Calcutta. India was then a congeries of heterogeneous territories with only the common British allegiance to bind them together. The conditions of Madras and Bombay differed materially from those of the Gangetic plain, and they had little in common with Central India and the Punjab. The economic conditions were different and so were the revenue systems and social usages. Transport facilities were very limited, and it took several weeks for a letter from Calcutta to reach Madras or Bombay In such circumstances, effective supervision was out of the question As Sir George Campbell puts it :

> Bombay and Madras are, as it were, the most distant horses of the coach which the Governor-General as coachman has under his command, heavily bitted, but which he has not a long-enough whip properly to reach, so that while they are prevented from going forward, they have every opportunity of jibbing and going backward [2]

The result was 'a petty, vexatious, meddling interference', of the type against which the Court of Directors warned the supreme Government Several persons who held responsible posts in India gave evidence before the Parliamentary Committee of 1852 on this matter According to their accounts, the system led neither to economy nor to efficiency A Madras official said : 'If the object was economy, perhaps it may not be irrelevant to make the remark, that as far as ever I had the means of judging, there was better economy practised in Madras than in Bengal.' [3] As for efficiency, the same official said : 'I have a strong impression that the rule which has taken away from the Madras Government the power of spending money without the sanction of Bengal is operating injuriously to public service.' For the slightest change in expenditure, detailed explanations had to be given and numerous objections had to be answered and work was often held up for a long period of time, owing to delay in arriving at decisions.[4] The length of Indian dispatches became proverbial. John Bright told Parliament in 1858 that a certain dispatch from India in 1845 extended to 46,000 pages.

[1] *Report of the Select Committee of the House of Lords* (1852), qq. 2828, 2850. *Select Committee Report*, qq. 888-9 and q 784
[2] *India As It May Be* (1853), p 54.
[3] *Select Committee Report* (1852), q 2845 also q. 2853
[4] ibid , qq 2843-4, 2849.

§2. *Trevelyan's Estimate*

Such was the outcome of the Act of 1833. But it was not intended to be so, according to all accounts, and no one was more struck with this unexpected development than Sir Charles Trevelyan, who returned to India in 1859 as Governor of Madras, after many years' absence in England.[1] In one of the valuable minutes which he wrote during his short but memorable régime as Governor, he said :

When I was in the secretariat at Calcutta I assisted Lord William Bentinck in taking the first timid, tentative steps towards the establishment of the control of the supreme Government after the Charter Act of 1833 had been passed, I also assisted in remoulding the constitution of the Indian Governments in 1853, it was not intended that the supreme Government should occupy the place which had previously been held by the local Governments, it is physically impossible that the real government of the whole of India can be carried on by one set of men from one place, and the result of the attempt has been to paralyse the local Governments without providing any effectual substitute for them. The south of India differs from the north, as much as France does from Germany or England, and if it had been intended that the detailed administration of the south of India should be conducted at Calcutta, provision would have been made for assisting the Governor-General in his secretariat and Executive Council with officers trained in the peculiar system of the south, the terms in common use, of ' subordinate ' and ' minor ' presidencies, show how deeply the mistaken notion arising from the civilian councillors, and the secretaries of the Governor-General, being taken exclusively from the Bengal Presidency has taken root; according to the constitution of British India, there is one supreme general Government without any local charge, and several co-ordinate local Governments, but the practice has been very different. The Governor in Council of this presidency is the only representative of the authority of Government known to 22 millions of Her Majesty's subjects, and functionaries in this position have an instinctive feeling that it is better that they should do nothing than do that which would bring their authority into contempt. As the local Government cannot be superseded, it ought to be maintained in all authority and honour. Again, infinite waste of invaluable time and strength has been caused by the following assumptions, upon which the supreme Government has habitually acted of late years. Firstly, that no arrangement should be made in reference to any part of India, which is not applicable to all the rest, and secondly, that *prima facie* grounds exist, that whatever is applicable to northern India is equally applicable to the Madras and Bombay Presidencies. Progress is impossible if, besides proving

[1] Sir Charles Edward Trevelyan (of the Company's Civil Service) was educated at Haileybury College and came out to India in 1826, became Under-Secretary to the Government of India in 1831; retired and was Assistant Secretary to the Treasury in England (1840-59), and did good service in the Irish famine.

that a measure is required for the Tamil, Telugu, Malayalam and Canarese people, or any of them, we have also to show that it is not unsuited to the Bengalees, and the countless millions inhabiting the great plains which extend from Bengal to Hindustan. The consequence of the other proposition is even more injurious to the public interest.[1]

§3 *Unequal Treatment of the Provinces*

In a centralized system of finance, it is difficult to distribute funds equitably between the different provinces. Such a complaint was inevitable in those days owing to the intimate connexion between the Government of India and the Government of Bengal, but there seem to have been good reasons for complaint. The needs of Bombay and Madras were not properly known at Calcutta, but the needs of Bengal and of the North-Western Provinces were well known to the imperial secretariat. For a long time Bengal civilians carried on the administration of all the territory on the Upper Gangetic plain, and when the Punjab was conquered, it was at first administered under the immediate care of the Governor-General.[2] The Government of India naturally took a paternal interest in developing those new territories, and regarded with some impatience the requests of the two older presidencies for financial help. Hence the inequalities of treatment, of which complaints were repeatedly made in newspapers and official communications, and in the evidence before the Select Committees of Parliament.

That there were inequalities in the distribution of funds is pretty certain, but it is difficult to prove this statistically, chiefly because of the faulty system of keeping accounts. Till 1858, the revenue and expenditure of the Government of India included also the revenue and expenditure of Bengal, and this makes it difficult to compare its income and expenditure with those of the presidencies. Another cause of complication is the fact that the expenditure on the armies of Bombay and Madras was debited to the accounts of the respective governments, whilst the expenditure of the Bengal army was debited to the account of the Government of India; and, as for the other provinces, they had little expenditure on that account. Nevertheless, the following table, showing the revenue and expenditure of the major provinces, will be of some use.

[1] Minute, 13 July 1859

[2] David Hill, of the Judicial and Financial Department of the India Office, said to the Select Committee of 1852: 'There is even more sympathy for the North-Western Presidency as part of the Bengal territory, but with respect to Bombay and Madras, the officers of the Government of India take a pleasure in running them down.' (q. 3249.)

REVENUE AND EXPENDITURE OF THE MAJOR PROVINCES

Years ending 30 April	Territories and Departments under the Govt. of India		Bengal		North-Western Provinces		Madras		Bombay (including Sind)		Punjab		Total	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
	Included under Bengal for these years		£	£	£	£	£	£	£	£	£	£	£	£
1850			10,909,518	12,315,908	6,214,938	1,994,163	5,005,950	4,574,274	4,102,900	4,646,099	1,289,038	669,607	27,522,344	24,210,051
1851			10,423,829	11,883,231	6,091,530	2,133,104	5,087,333	4,647,227	4,430,771	4,795,047	1,591,897	824,829	27,625,360	24,283,438
1852			10,407,442	12,002,307	6,198,373	2,129,172	5,233,232	4,700,140	4,780,201	4,757,900	1,212,989	1,022,566	27,832,237	24,592,085
1853			11,215,705	12,582,015	6,124,130	2,119,727	5,318,078	1,828,522	4,711,713	4,832,207	1,238,483	916,776	28,609,109	25,279,247
1854			11,221,092	13,473,401	6,172,387	2,222,719	4,986,635	5,225,377	4,600,807	4,964,435	1,296,609	1,092,214	28,277,530	26,978,146
1855			11,691,344	13,718,480	6,254,268	2,252,279	4,929,346	5,420,367	4,950,347	4,915,507	1,307,745	1,436,088	29,133,050	27,741,721
1856			13,019,430	13,768,540	6,260,006	2,533,457	5,287,329	5,537,168	4,953,172	5,123,425	1,297,591	1,410,311	30,817,528	28,372,901
1857			13,512,854	13,885,288	6,219,036	2,608,244	5,465,330	5,177,904	5,228,874	5,143,286	1,264,921	1,264,480	31,691,015	28,079,202

Note.—The expenditure debited to Bengal, Madras and Bombay includes also military expenditure

Although no exact statistical comparison is possible as to the financial position of the different provinces, comparison of a general kind may be made. We will take Madras and the North-Western Provinces. These two provinces spent, in 1857-8, £6,485,755 and £2,320,089 respectively, but in order to make the figures comparable it is necessary to deduct the amounts spent for the army, which should not have been charged to any particular province. Madras spent £3,654,251 for its army, but the North-Western Provinces spent nothing on that account, being served by the 'Bengal army' Thus the real expenditure on the two provinces was: Madras £2,831,504 and the North-Western Provinces £2,320,089. That is to say, assuming that the populations of Madras and of the North-Western Provinces were nearly equal, the expenditure per head in the two provinces did not vary much. The way in which a vicious system of accounts veiled the true financial position of the various provinces is illustrated by the fact that while the expenditure on many imperial undertakings or on the garrisoning of newly ceded territories was debited to the account of Madras, the revenue accruing from them was credited to the account of Bengal. Thus, the money spent on the China and Burma expeditions came for the most part from Madras revenues, but the money received as a result of the expedition was not credited to the account of Madras It was mainly the Madras army that garrisoned Nagpur, the Southern Maratha country, the Tenasserim coast, Penang and Singapore; but the revenues of all of them were credited to the Bengal account [1]

A comparison of the various items of civil expenditure will show how the different provinces fared under centralized administration The charges on civil and political establishments in 1857-8 came to £447,347 in Madras and £1,120,795 in the North-Western Provinces; and this is no wonder when we consider the unequal size of the districts and the unequal strength of the establishments in the two provinces Medical expenditure also tells the same tale Whilst the North-Western Provinces spent £39,902 for medical establishments in 1857, Madras spent only £18,311.[2]

It was perhaps in the matter of public works that the southern presidency was most neglected It is true that in 1857 the expenditure on this account was nearly equal in Madras and the North-Western Provinces, but that does not indicate the extent of the past enterprise in the one province and the comparative neglect in the other. According to an elaborate statement given by a writer in the *Calcutta Review* for 1851, we find that while Bengal and the North-Western Provinces spent $1\frac{3}{4}$ per cent. and $2\frac{1}{2}$ per cent. respectively, of their funds on public works, Madras spent only $\frac{1}{2}$ per cent of its funds, in the years 1837 to 1845.

[1] See *Calcutta Review* (1851), p 475
[2] P N Banerjea, op cit., pp 288-90

Thus the outlay on public works in Madras was, according to his estimate, only a fifth of that of the North-Western Provinces.[1] No doubt this is an exaggerated view : the computation is vitiated by various errors. The true state of things can be seen from a statistical note published by Lieut.-Colonel W. H. Sykes, F R S , in the *Journal of the Royal Statistical Society for 1851*.[2] It is clear that in the matter of roads and bridges, the Madras Presidency was comparatively neglected at the time Indeed it may be admitted that roads and railways had not in the southern presidency the same military significance that they had in northern India; none the less, they were equally essential to the functioning of economic life in Madras. No wonder that Madras was in a backward condition for a long time and was nicknamed the 'benighted' presidency. Contemporary travellers noted a great difference between the metalled roads of northern India and the dirty, swampy, meandering tracks, few and far between, found in the Madras Presidency. It was recorded that the tracks of Madras were not distinguishable from the paddy fields through which they passed, and were altogether useless in the rainy season [3]

Nor was finance the only sphere in which centralization introduced inequities; equally baneful were the results in legislation. The predominance of Bengal was, in legislation also, a source of unfairness to the other provinces. The codes drawn up in the Legislative Council at Calcutta were suited mainly to Bengal, perhaps to the greater part of northern India, but what about distant Madras and Bombay? Without realizing the wide diversities of the sub-continent, the Council went on making laws which they knew would suit Bengal Proposals for legislative 'projects' were sometimes sent up from the other provinces, but they were often so much modified that their original purpose was nearly defeated. In short, everything was to be brought to the standard and pattern of Bengal.

In such an environment, is it any wonder that inter-provincial jealousies arose and worked havoc? Such jealousies were given full vent in the columns of the provincial newspapers and in contemporary Anglo-Indian writings. The authorities at Calcutta were so much obsessed with the Bengal ideas that the adoption of any suggestion from Bombay or Madras was distasteful to them. At any rate such was the suspicion in the minds of the officers of the subordinate presidencies and this caused some ill-feeling at the time. Not only the Civil Service but the Army was invaded by these jealousies. When, during the Mutiny, the 8th Madras Cavalry refused to proceed and were disarmed, a high military official at Calcutta is reported to have said . 'Thank God ! There is a Madras regiment gone at last.' When the Madras

[1] op. cit., pp. 446-82. Irrigation expenditure, being debited to land revenue, is not included in this calculation.
[2] *Journal of the Royal Statistical Society*, March 1851, pp 45-7.
[3] *Calcutta Review* (1851), loc. cit.

Splendid Rifle Corps were embarking, a Bengal officer, coming out in consequence of the rebellion, was heard to express a wish that the mutineers might give them a good thrashing.[1] It is surprising to find that provincial feeling was so extraordinarily bitter even at a time when the very existence of the British Empire in India was at stake.

§4. *Proposals for Reform*

The Parliamentary Select Committee of 1852 made an elaborate inquiry into the administration of British territories in India. Several experienced officers from India gave evidence before it and brought out the evil consequences of centralizing all financial power at Calcutta and of keeping the two presidency Governments in a position of subordination. Lord Elphinstone said that the effect of the Act of 1833 on the subordinate presidencies had been 'upon the whole, very injurious'. He added: 'I think it has lowered the character of those Governments in public estimation, and dammed and depressed the zeal of public servants under the presidencies.'[2] Mr (later Sir John) Willoughby described the vexatious delays caused by centralization and the meticulous interference with details which shocked the provincial Governments.[3] Lord Dalhousie was criticized by certain witnesses for fettering the Madras Government, and although he denied it, he agreed that such a grievance existed.[4]

Among the remedies suggested to the Committee of 1852 was a scheme of decentralization which was very much like the one carried out by Lord Mayo in 1870. It was put forward by M'Pherson M'Leod, of the Madras Civil Service. He said:

> It would be better, with a view to economy, if a certain sum was allotted annually to the two presidencies, to be expended on public works; they would be more likely to make an economical use of that sum, if they were allowed to dispose of it as they thought best, than under the present system of sending every separate item to the supreme Government, by whom the details cannot possibly be understood, and who are as likely to sanction a useless project as a useful one. The public interest would be better promoted by leaving the distribution of any sum which may be allotted to be expended on public works in the Madras Presidency as in the Bombay Presidency, entirely to the Government of the presidency, than by the supreme Government's taking upon itself the direction in detail of the manner in which the sum is to be laid out.[5] The general control every one desired might be attained by fixing beforehand, for the expense of the year, a sum beyond which the provincial Governments should not be allowed to incur expense. . . . The extent of the power of the Governor-General to interfere

[1] J. B. Norton, op. cit., p. 129
[2] Committee of the House of Commons, 11 June 1852
[3] Evidence given on 27 May 1852. [4] J. B. Norton, op. cit.
[5] *Report of the Committee of the House of Commons* (1852), q. 2852

in provincial expenditure should be limited by the amount which was proposed to be incurred.[1]. . . Too free an action can hardly be given to the local Government in all matters of internal administration. . . . I think they are more capable of exercising the power efficiently and economically in such matters than the supreme Government can be.[2]

Parliament, however, did not change the constitutional position of the provincial Governments, but decided that representatives from Bombay and Madras should sit on the supreme Legislative Council.

When the Government of India Act of 1858 was under consideration, John Bright made a vehement appeal for the decentralization of government in India 'What you want', he said, 'is to decentralize your government. What would be thought if the whole of Europe were under one Governor who knew only the language of the Feejee Islands, and if his subordinates were like himself, only more intelligent than the inhabitants of the Feejee Islands are supposed to be' He therefore suggested the reconstitution of India into five presidencies with headquarters at Calcutta, Madras, Bombay, Agra and Lahore, each with an open Council composed of Indian representatives[3]

At the same time John Bruce Norton, the brilliant lawyer of Madras, put forward a suggestion for a federal system of government, the Government of India retaining defence, communications, trade and other central subjects, and leaving each province to manage its own administrative, judicial and financial affairs, as was done by the Australian colonies at the time.

§5. *The Other Side of the Picture*

The suggestions of Bright and Norton mentioned above were indeed very clever, and they were much applauded at the time by publicists and even by responsible officers of Madras and Bombay But had those suggestions been given effect to, the subsequent history of India would have been very different from what it has been Before 1858, India was but a 'geographical expression', and was only held together by the unified rule of the British Government. It was a conglomeration of races, languages, religions and cultures; there was no one Indian nationality. Mogul, Maratha and Sikh chieftains were fighting among themselves; and while they fought, the common people were living in misery. What the country needed most was a powerful, unified rule, keeping every race and group in its place and giving them all free scope for economic and intellectual avocations. The economic life of the country was of a primitive kind. The prime essentials for economic progress were wanting; there was no uniform

[1] ibid, q. 2897 [2] ibid, q 2893
[3] Speech in the House of Commons, 24 June 1858.

system of currency, or of weights and measures; and transport facilities were undeveloped To supply such agencies a powerful central authority was necessary · an authority that could impose its will upon the conflicting political and social interests of the country. Britain organized such a government with authority all over India, and from 1833 onwards, the political unity of India became more and more complete. Under Dalhousie rapid strides were made in the economic unification of India, but the fissiparous tendencies of the sub-continent were so powerful that a longer period of unified rule was essential for weakening them.

Only a similar system of centralization has enabled the most powerful states of to-day to attain economic unity and political greatness. This is true of England, France and Germany. At the time of the Norman conquest, England was rent asunder by rival interests of all kinds and there was little political solidarity and no economic unity; but the Normans and Angevins, and the Tudors after them, established the authority of their government all over the land, broke down clerical and baronial privileges, laid down the law firmly and applied it unflinchingly throughout the country. The same happened in France under Louis XI and his successors, and such was the thoroughness of the centralization that, according to Charles Brunn, France gained 'her sense of national solidarity at a time when the rest of Europe was still in a state of flux and chaos '.[1]

Even as in India, the agency used by the centralized government in England and France to enforce its will was a well-disciplined bureaucracy which controlled the local administration. The pillar of that bureaucracy was the sheriff in England and the *préfet* in France. Maitland has truly said that the history of England could be brought under the rubric of the decline and fall of the sheriff. Under the Normans and Angevins, the sheriff carried out in the counties much of the work that the collector of early days did in his district in India Till then the central Government had little control over the counties, but after the appointment of the sheriff, the shires became mere administrative divisions of a unified state Like the Indian district officer, the sheriff effectively attended to the greater part of the administrative work of his county and left little to be done by local self-governing institutions It was thus that administration became centralized and England became a unified and co-ordinated state The rule of the sheriff did not indeed last for long. Once national unity was becoming a reality, centralized administration became unnecessary. Owing to the stout opposition of Parliament to bureaucratic control, the sheriff was deprived of much of his power, as early as the fifteenth century, he was supplanted by the Justice of the Peace, who, being a local magnate and receiving no salary

[1] C Brunn, *Le Régionalisme* (1910).

from the Crown (unlike the sheriff), carried on local administration according to the ideas and interests of the local landed gentry. The administration was still efficient, because by the sixteenth century the people had become competent to look after their own local affairs and bureaucratic control was no longer essential.[1]

In France, however, the people remained long unprepared for such responsibilities. A succession of powerful kings kept up the bureaucracy and used it so well that parochial privileges were crushed, and thus there arose a most powerful state with a centralized administration. Even after the Revolution, this centralization persisted, and the *préfet* still functions as the powerful agent of the central Government in the *département* and is still a strong medium of unified control

§6. *Conclusion*

The conclusion that is forced upon us by the foregoing survey is that centralized government is generally necessary for developing a state In India the experience was unpleasant, but considering the enormous diversity of conditions, the divergence of interests between the different parts of the country and the different sections of the people, and considering also the strength of the fissiparous tendencies and the unequal position of the constituent provinces, a rigid centralization was the most appropriate remedy for evils which became intolerable when the Mogul Empire broke up. It was necessary that a new and more complete centralization should be established before India could pass on to a greater measure of local autonomy without disaster

Edwyn Bevan has explained the significance of centralization with an appropriate analogy [2]

'A normal human body', he says, 'is held together by internal coherence, by the bones, bands and fibres of the organism, but when bones are dislocated or connecting fibres torn asunder, surgeons, I believe, sometime case the body in a hard frame of plaster of Paris or steel to hold it together till the gradual process of internal growth has joined the dislocated bones and knit up the torn fibres' Such a process has many disadvantages 'It is not the normal thing for a man to wear a steel frame, it is not beautiful, it is not comfortable; it is calculated rather to cause considerable cutaneous irritation; it hampers movement, and if the frame is a well-made one it is likely to be expensive, but in spite of all these drawbacks an abnormal dislocation of the body within is held to demand an abnormal constraint without' The whole gist of the argument is contained in this: 'A steel frame, in contrast with the natural freedom of the body, is always an evil, but in contrast with the condition of the broken or dislocated body without it, it may be a necessary evil.'

[1] F J Goodnow, *Comparative Administrative Law*, vol I, pp. 162-5
[2] *Indian Nationalism* (1913), pp. 45-6.

Such, precisely, has been the achievement of the Indian imperial system. Centralization had all the merits and all the defects of the steel frame above described. It was inconvenient and irritating; and it was expensive But at the same time, it welded together the conflicting elements into an organic whole The strength of the centralized system enabled it to withstand the forces of disunion. Its financial control insured India against foreign aggression as well as against internal dissensions. Its legislative supremacy broke down the barriers of codes and customs between province and province. Above all, the common people of India came to feel that they were not only the members of a caste and a village community, but citizens of a vast commonwealth.

Just like the steel frame, the need for centralization was bound to be temporary A properly unified India has no need for a rigidly centralized administration, and in proportion as India became truly unified, the rigid regimen had to be relaxed How this has actually been done, we shall see in the sequel.

PART II

THE NEW FINANCIAL SYSTEM

CHAPTER VI

FINANCIAL DIFFICULTIES, 1858-64

§1. *Financial Crisis, 1858-60*

THE Mutiny brought about a grave financial crisis From 1853, the revenue and expenditure of the Government of India did not balance, and the accumulated deficits up to 1856-7 amounted to nearly £6 millions As James Wilson pointed out, the condition of Indian finance was already one of chronic deficit. The Mutiny involved abnormal expenditure, and the deficits mounted up to unprecedented heights For 1857-8, the deficit was £8 millions; for 1858-9 it was nearly £14 millions; and a deficit of more than £10 millions was estimated for 1859-60, but it later turned out to be £9 millions Thus, in all, a deficiency of about £31 millions had to be met The Government met it by borrowing, and the public debt of India, which stood at £59 millions in April 1857, rose to £98 millions by April 1860, and the interest charge rose from £2·5 millions to £4·4 millions.[1]

The cause of this disequilibrium was, of course, the swollen military expenditure. Before the Mutiny the army was composed of 45,522 European soldiers and 294,153 Indian soldiers. In 1858 the Europeans were 110,320 and the Indians 207,765. At that time, the cost of employing a European soldier was about four times that of an Indian soldier, and therefore the total expenditure on the army rose from £11·5 millions in 1856-7 to £21 millions in 1858-9,[2] exclusive of expenditure in England which had also increased in the meantime. The total expenditure of the army in England and India came to £25 millions in 1858-9

The Government of India went on borrowing to meet the extra expenditure. It was felt that a drastic retrenchment was necessary, especially of the military charges, but no one was bold enough to venture on such an unpleasant task. Sir Bartle Frere wrote in 1859 : ' Out here, there seems no one connected with the supreme Government who has any definite plan of finance . . . and nothing could be more unworthy of a great Government than the haphazard way in which we have drifted in finance.'[3] However, a Military Finance Commission of three members, one from each presidency, was appointed early in 1859 and was charged with the difficult task of finding means of reducing military expenditure. The Commission soon examined the details of military

[1] Financial Statement, 18 February 1860
[2] Parliamentary Paper C. 354 of 1852, p 10.
[3] Letter to H. D. Seymour, J. Martineau, op. cit , vol. I, p. 299.

charges and suggested economies, and by 1859-60 military expenditure was reduced to about £20 millions.

Sir Charles Wood, Secretary of State, fully realized the situation and sent out to India, as Finance Member, the Rt. Hon James Wilson, M.P., a financier of great reputation, then holding the office of Vice-President of the Board of Trade.[1] He arrived in India at the end of November 1859 and from that time he was hard at work until he died eight months later.

Wilson soon became convinced that the Government had borrowed too freely and that financial equilibrium could only be restored by drastic retrenchment and enhanced taxation. He unequivocally condemned the 'resort to the miserable, disreputable expediency of continuing to borrow in time of peace'. 'Loans may be justified', he said, 'in time of war, and as the consequence of war for a year after, but even then, they should not be exclusively relied upon But the theory of borrowing during war involves the necessity of some effort to reduce it in time of peace, but if instead of this, we are to continue to rely upon loans still in times of peace, what will our debts soon be? Where will be our credit?'[2]

§2. *New Taxes*

Efforts had been made, even before the arrival of Wilson, to increase the tax revenue In 1858, the duty on Malwa opium was doubled and the salt tax was increased. In 1859, import duties on goods like tea, coffee, tobacco, spices, grocery and provisions were raised to 20 per cent *ad valorem*, and specific duties on approximately the same level were levied on beer, wines and spirits All unenumerated articles paid 5 per cent *ad valorem*, and this included cotton piece-goods The export duties on tobacco and silk were abolished, but the duty on grain was raised from a half-anna per maund to two annas The inter-provincial differences in customs tariffs were swept away in that year[3]

In March 1859, the Government of India proposed to raise a tax on tobacco by means of a cultivation licence.[4] This evoked from the Government of Madras the first of a series of protests which made the brief governorship of Sir Charles Trevelyan unique Trevelyan wrote in one of his piquant minutes that the objections to the scheme of a tax upon tobacco were so grave and decisive that it would be a waste of time to discuss it[5]

[1] James Wilson (1805-60) began his career as a businessman Subsequently he wrote several books, and established the well-known weekly newspaper, *The Economist* He was M P from 1847 to 1859 and held office as Joint Secretary of the Board of Control (1848-52), Financial Secretary to the Treasury (1853-8), Vice-President of the Board of Trade and Paymaster-General (1859). In 1859 he was made a Privy Councillor

[2] Financial Statement, February 1860 [3] Act VII of 1859.

[4] Letter to Madras, 21 March 1859.

[5] Minute, 10 June 1859 See also Board of Revenue's letter to the Madras Government, 21 April 1859

About the same time, the Government of India also proposed to the Madras Government that the salt duty should be enhanced by 8 annas per maund To this also the Government of Madras objected. 'The salt tax is of the nature of a poll tax,' wrote Trevelyan, 'and it is already so heavy that the labouring population, who form the bulk of the consumers and consequently of the taxpayers, are unable to provide a sufficient supply for themselves and their families.'[1] Trevelyan also held, and in this he had the support of two of his councillors, that raising the salt tax would reduce consumption and that 'the best financial arrangement would be to lower the tax'. The salt revenue could be increased by the establishment of new depots and by a more rigid enforcement of collection The following timely advice was also given by Trevelyan to the Government of India on this occasion.

I am convinced [he said] from a long and a large experience of Indian affairs . . . that the present financial exigency might be overcome in two or three ways, by reduction of expenditure combined with various measures of good administration. Instead, therefore, of exhausting our ingenuity in devising new taxes and raising new loans, I recommend that we apply ourselves in serious sober earnest to reducing expenditure, many large items of which are capable of being immediately acted upon and to rendering the large balances in the treasuries more available . We ought not to increase the burdens of our Indian fellow-subjects until it has been clearly ascertained that the object cannot be effected by the primary and more legitimate mode of reduction of expenditure This is especially due to the people of the south of India, who, so far from having added to our embarrassments and losses by rising against us, have given us noble support, and have contributed throughout an increasing amount of revenue . The gulf of northern expenditure ought to be speedily fathomed in justice to the rest of India, else, our taxation will be indefinitely increased and our most indispensable public works, military as well as civil, will continue to be postponed or rejected.[2]

The proposal for a tobacco tax was dropped, but the duty on salt was put up in 1861, at rates varying from province to province [3]

The Government of India were, from the first, reluctant to raise direct taxes; but having been foiled in the attempt at raising a tobacco tax, and as the financial position still remained bad, the Government made an attempt at direct taxation In August 1859, H. B. Harrington introduced a bill for a licence tax on trades and professions This produced another protest from the

[1] Minute, 10 June 1859 (C 339 of 1862)

[2] 10 June 1859 On being asked by the supreme Government what his ideas were about the reduction of expenditure, Trevelyan wrote a long minute on 11 July 1859 urging the reduction of military charges and decentralization of administration See *Select Committee Report* (1873), pp 115-16.

[3] P N. Bannerjea, *Indian Taxation*, pp 278-9

Government of Madras, and this time one from the Government of Bombay also. The central Government had asked for the opinion on this bill of a few selected officers in each presidency. Accordingly the Government of Madras consulted fifteen experienced officers, most of whom considered the proposal impolitic, and feared that 'distrust, dissatisfaction, discontent, uneasiness, alarm and disaffection' might result from the proposed tax. The principal objection was that the tax would be of an inquisitorial nature. Trevelyan wrote:

> This tax would again cover the country with a swarm of ill-paid, ill-superintended native subordinates with duties so favourable to underhand exaction that it would be impossible to prevent them from preying upon the people. The experience I have had of the want of principle in making the returns to the income-tax even in England makes me exceedingly dread the introduction of such an element of immorality and extortion in this heathen country.[1]

Another reason brought forward was that the *moturpha* and *veesabuddy* taxes had already become so unpopular that any new tax falling on the same classes was likely to cause disaffection. Mr (afterwards Sir) William Robinson objected to the proposal on grounds of political safety.

> Our political safety in India [he wrote] depends, in no small degree, on our taking no measures that tend to unite the now sufficiently dislocated interest, feelings and objects of its various population. Why then give the *mahajan* of the North-West Provinces, the *pandit*, etc. of Benares, the *sahukar* of Bombay, the *Brahmin* moneylender of Tanjore, and the *moplah* trader of Malabar a common war cry, by a sudden simultaneous general legislation of an unpopular character? . . Legislation in India should be several; localized feeling and interest should be fostered and taxation especially should vary in character in different parts of the country, and for the different populations, according to their respective circumstances and feelings.[2]

At this stage Wilson arrived, and on his advice the bill was abandoned. However, a licence tax had already been imposed by executive order in some of the northern provinces, and the assessment in the Punjab was at the rate of 3 per cent. on incomes below Rs. 2,000.[3] But as its legality was later questioned, it was also eventually given up.

§3. *Wilson's Taration Proposals*

On 18 February, hardly three months after his arrival in India, Wilson presented his first and only budget. It was a masterly survey of the financial situation and contained practical proposals for restoring financial equilibrium in India. A wrong

[1] Minute, 1 December 1859. [2] Memorandum, 8 November 1859.
[3] *Moral and Material Progress* (1859-60)

balance-sheet published in September 1859 had created the impression, especially in England, that the 'neck of our financial difficulties had been broken'. Wilson destroyed that illusion and exposed the real state of India's finances. At the same time, he expressed great confidence in the resources of the country and the capacity of the people to develop them.

A richer soil, a finer climate, a more illustrious, active and frugal, and I will add, docile, population it would be difficult to find anywhere. . . I have seen many European countries, but I have seen none at once so striking, so wonderful, so interesting. The nearest comparison I could make would be a Belgium upon an immensely enlarged scale You have the same antient magnificent cities, with their narrow streets, their thronged population, their splendid public buildings, the relicts of decayed dynasties and the active bustle of trade at every corner, but what is more important and more to our present purpose, you have the same expansive plains, with Alpine mountains in the far distance, affording sanitarium for the people and a climate for new varieties of productions, you have large rivers and magnificent canals irrigating the country, the same careful husbandry with cultivation up to the roadside, and the same teeming population, all bent on active and profitable pursuits, you have the same thrifty and economical habits. I never saw greater signs of industrial vitality, all full of promise of future prosperity.

Wilson also had great hopes of trade expansion.

Almost everything she [India] produces is in constant and boundless demand in Europe and almost every article of importance required in Europe is to be found increasing in India, so varied are her products Sir, in this fact there is great security for the future.

Nor was taxation too heavy. While the burden of taxation in England per head of population was £2 3*s*., the burden was only 5*s* per head in India, even if land revenue were included

Thus it was clear to Wilson that the taxable capacity of the country was not exhausted. But before tapping it further, all avenues to economy must be explored, *magnum est vectigal parsimonia* [1] He therefore took a keen interest in the deliberations of the Military Finance Commission and widened its terms of reference. But retrenchment must take time, and however drastic it might be, fresh taxation was necessary to restore the financial equilibrium. He therefore decided that new taxes were essential, but must be imposed carefully with due regard to three great principles viz. that whatever taxation is levied (1) must be borne by every class of the community, European or Indian, official or non-official; (2) should be in conformity with sound financial and commercial policy; and (3) must be imposed with scrupulous regard for the religious views of the people. As for the last point, he satisfied himself from the beginning by a reference to

[1] 'Economy is a great source of revenue'—Cicero.

the *Dharmasastras*. According to Manu, even a 20 per cent. income-tax on profit was not exorbitant.[1]

Wilson's chief taxation proposals were (1) revision of customs duties, (2) a tax on incomes, (3) a licence duty on trades, and (4) a tax on home-grown tobacco. The first measure was not intended for increasing revenue, but for reconstructing the tariff in accordance with what Wilson considered to be sound economic theory. He reduced import duties from 20 per cent to 10 per cent., except in the case of beer, spirits, wines and tobacco. On the other hand, the duties on cotton thread, twist and yarn were raised to 10 per cent The export duty on saltpetre was increased to Rs 2 per maund He also placed more articles in the free list among imports wool, flax, maps, prints, and works of art, and among exports wool, flax, jute, hides, tea and coffee. He explained the reason why many exports were placed in the free list 'As a general rule when the products of our soil have to find a foreign market and in cases in which they enter into competition with those of other countries, the direct effect of export duties must be to place our products in those countries at a disadvantage with their foreign competitors; in point of fact, it cannot be denied that in such cases an export duty falls chiefly upon the producer who cultivates the article' He was particularly anxious to encourage the exportation of jute, tea, hemp and hides, many of which were competing in the English market with products from foreign countries

The two principal measures proposed by Wilson for increasing revenue were a tax on incomes above Rs 200, and a licence duty on trades and professions He agreed with Burke that it was as difficult to tax and to please as it was to love and be wise. But fresh taxation was essential for meeting the deficits. However, he did not want to introduce any permanent taxes These two taxes were to be temporary For the purpose of this tax, incomes were to be classified under four schedules (1) lands and houses; (2) trades and professions, (3) dividends and annuities; and (4) salaries Incomes above Rs. 200 and below Rs 500 were to be charged at the rate of 2 per cent and higher incomes at 4 per cent. Of this latter 1 per cent was to be appropriated for reproductive local works Exemptions were to be allowed for property used for religious or charitable purposes and to subordinate military or police officers. Ryots paying less than Rs. 600 as land revenue or as rent were also exempted.[2]

The licence tax proposed was a counterpart of the income-tax. It was a tax on arts, trades and dealings. Wilson wanted to make it universal, but the Select Committee decided to exempt

[1] Wilson made an interesting comment in this connexion: 'I should imagine', he said, 'that the revenue laws of ancient Hindus must have been suggested to the sacred compiler by some very needy finance minister of the day' (Financial Statement, 1860)

persons paying income-tax. Thus, while the larger incomes were to be tapped by the income-tax, the smaller were to be reached by the licence tax.

§4. *Trevelyan's Opposition*

Owing to repeated protests from the presidency Governments on various measures contemplated by the Government previously, it was thought advisable to consult those Governments on the new taxation proposals;[1] and accordingly confidential letters were sent explaining 'the exigency of the circumstances under which the decision of the supreme Government had been formed' While it was hoped to reduce the expenditure further, fresh taxation could not be avoided.[2] The Madras Government, asking for sufficient time, telegraphed .

> As this Government is responsible for the administration of the south of India, including the maintenance of tranquility, it is indispensable that the Governor in Council should have an opportunity of considering and expressing their opinion upon measures of such great importance as the proposed income, licence and tobacco taxes. We rely upon sufficient time being allowed for this purpose.[3]

On 26 March, the Madras Government transmitted to Calcutta minutes recorded by the Governor in Council, completely disapproving of the taxation proposals In his minute of 20 March 1860, Trevelyan made a detailed criticism of Wilson's statement, and emphatically expressed his opinion that the deficits were overestimated, that the reduction of expenditure was not sufficient and that retrenchment must be the principal weapon for fighting the deficits He also pointed out that the reduction of the import tariff from 20 per cent. to 10 per cent. on the principal articles of European consumption in the country was done 'in the interests of the ruling classes', and warned the Government against the consequences of the introduction of an alien system of taxation, unsuited to the conditions of the country. The Government of India characterized this minute as 'a production which might well have appeared in a hostile newspaper or have proceeded from an avowed leader of opposition to the Queen's Government'.[4]

No doubt, Wilson was moving too fast, but it was not correct to say that the new taxes he had introduced were alien 'There is no part of Mr Wilson's plans', wrote Sir Bartle Frere, 'that

[1] Letter to Sir Charles Wood, 9 March 1860

[2] Letter from the Government of India, 9 March 1860 The correspondence referred to in this section may be seen in the Dispatch to the Secretary of State on the Recall of Sir Charles Trevelyan, K C B (Parl Paper Cd 481 of 1860, vol. XLIX)

[3] Telegram, 16 March 1860 [4] To Sir Charles Wood, 17 April 1860

might not have had a place under a different name in any scheme of Akbar's; no single tax which is at this present moment not levied by almost any independent Indian state when in difficulties.'[1] Direct taxation was levied in India from time immemorial. *Sair, moturpha* and *veesabuddy* were all direct taxes, and the last-named was a rough income-tax as shown above. Trevelyan must have known this. About twenty years previously, he had made an inquiry into inland duties, and as Governor of Madras he was still responsible for the collection of *moturpha* and *veesabuddy*. Indeed they were to assume new and unfamiliar forms, and it was perhaps inopportune to increase taxation so soon after the Mutiny; but that was not the point stressed J D Maltby, a Member of the Madras Government, realized this better. He wrote :

> It appears to me that an income-tax can only be carried out effectively in a country where the Government and the people are on a thoroughly good understanding, and have a mutual confidence and sympathy, in other words, where the governors and the governed have the same national feelings and interests and where education and a representative system give a high moral tone and political enlightenment Here the state of things is far different. The people have been long accustomed to a despotic government, and tradition has taught them to seek relief from over-taxation by concealing their means, and from oppression, when it becomes unbearable, by revolt. They have submitted to the rule of us foreigners, because it is mild and equitable, and enables them to pursue their avocations in greater security and ease than under former governments. This is the tie on which we must depend for their careful submission, since a foreign rule must always in itself be distasteful to a people, and requires to be attended with strong palliative advantages.[2]

Further, Trevelyan's conception of the powers of a presidency Government was much larger than would be conceded even in a federal system As Sir Bartle Frere reminded him, the subjects on which he protested against the central Government's action—taxation, army reorganization, etc.—were legitimately central functions, and to make the Government of India dependent upon provincial approval in such matters would have meant disaster to the Indian Empire, sooner or later. The repeated insistence in the Madras letters on the local Government's responsibility for the preservation of tranquillity in the south of India and the insistence that the proposed new taxes should not be imposed in that presidency would have been considered improper even in a federation Trevelyan thought that the Government at Calcutta were pursuing a reckless policy of taxation and that it was his duty to protest in time. Wilson gave an elaborate answer to the charges levelled by Trevelyan. The taxes proposed by him were to be

[1] To Sir Charles Wood, 23 April 1860. Cf J Martineau, op cit , p 306
[2] Minute, 24 March 1860

raised from all, irrespective of race. Nor did the claim that Madras should be exempted from the tax create any impression at Calcutta

But Trevelyan was determined to go ahead. He sent copies of the minutes to G. S Forbes who was the official representative of the Madras Government in the Legislative Council and asked him to place them before the Council, in order that publicity might be given to them. He also distributed 'on his sole responsibility' copies of the minutes to members of his Government, 'with a view to secure for them the greatest possible publicity'. The supreme Government prohibited the publication of the minutes, as 'it would be highly injurious to the Queen's service'.[1] But soon the newspapers published them and thus created an uproar in the country. Trevelyan's idea in doing all this was to influence public opinion both in India and in England, but the consequences were much more serious than he expected. His open protest stiffened public opposition to the new taxation proposals, and petitions poured into the Council Chamber from Indians as well as Europeans Public meetings were held in Calcutta and Madras by European residents, and the Indian press became highly critical. Various rumours had been afloat to the effect that the tax was soon to be 'levied on priests, women, children and even corpses'.[2] Lord Canning was in touch with popular feeling, and he was very reluctant to give his approval to the Income-Tax Bill. He is reported to have said 'Danger for danger, I would rather risk governing India with an army of only 40,000 Europeans than I would risk having to impose unpopular taxation'[3]

The position was becoming intolerable I. T Pritchard writes:

> In former days, under the Mogul Empire, a similar exhibition of independence from a *soubahdar*, or governor of a distant province, might be expected to be speedily followed by some overt act of rebellion. A protest against an imperial measure, such as the imposition of a tax, published in the newspaper, was an appeal to public opinion which was altogether strange and hideous to a Government so thoroughly opposed to the expression of any public feeling at all as that of India It was as near an approach to a declaration of independence on the part of a satrap of a minor presidency as could well be made.[4]

These misgivings of a contemporary Anglo-Indian writer were not quite justified; for no one was more loyal to the Crown than Trevelyan. However, the Secretary of State had to take 'the painful step of removing Sir Charles Trevelyan from his

[1] Telegram, 3 April 1860
[2] Canning to the Secretary of State, 19 April 1860
[3] Samuel Laing's evidence, *Select Committee Report* (1871), 28 June 1872.
[4] *Indian Administration*, vol. I, p 57

appointment', while expressing his high appreciation of his services.[1]

Sir Charles Wood wrote

> It is impossible to conceive a course of conduct more incompatible with the proper relation between the Government of minor presidencies and the supreme Government of India, or more calculated to shake that authority which is intrusted to the supreme Government over the whole of Her Majesty's dominions in India [2]

In publishing the minutes, Trevelyan was apparently applying well-known British methods, quite suitable to a parliamentary system of government, but equally unsuitable for the conditions of India. Even today, with a large advance of representative government and of the federal principle in the country, it would be highly impolitic on the part of a provincial Government to protest openly against the proposals of the central Government. Sir Bartle Frere wrote to Trevelyan

> Were we all in Parliament, if the Opposition had the best of it, they would, of course, change places with the Ministry and try their hands at finance, but even if that could be done in your case, how would you as Governor-General prevent the new Governor of Madras from making a similar stand against your scheme?[3]

Trevelyan's opposition only convinced the Home authorities that the overweening pretensions of the presidency Governments must be crushed in the interests of harmony. It was an irony of fate that in this very task Trevelyan was himself an effective instrument, when he became Finance Member three years later

Notwithstanding all this, the Government proceeded with the Income-Tax Bill. In order to allay popular suspicions, a vernacular pamphlet explaining the new taxes was published by the Government for distribution all over the country, but the Madras Government refused to distribute copies, as in their opinion, it smacked of the communications addressed by members of Parliament in England to their constituents.[4]

The Government of Bombay also thought that Wilson's measures were too hasty. 'Why on earth could not Mr Wilson have let India bide still awhile?' wrote Sir George Clerk, Governor of Bombay, to Frere.[5] But after some explanations from Calcutta, Clerk promised to do his best to make the new tax work smoothly.

The bill became law on 24 July 1860, and was immediately put into operation. In order to ward off opposition some of the more important towns of the Punjab were allowed the option of raising the income-tax revenue assessed on them by means of

Letter to Madras, No. 24, 10 May 1860
Letter to Madras, No 23, 10 May 1860.
Letter, 9 April 1860 See J Martineau, op. cit , vol. I, pp 305-6
Trevelyan's Minute, 23 April 1860
Letter, 17 May 1860. See J. Martineau, op. cit , p 310.

octroi duties. Further, district collectors who were in charge of the assessment were asked not to be too inquisitorial in their methods.

Of the remaining two taxation proposals, the licence duty was kept in abeyance and the tobacco duty was practically abandoned. Wilson then turned his attention to the reduction of military expenditure. He had enlarged the functions of the Commission then sitting, by the inclusion of the audit of all military accounts. He kept in constant touch with the Commission's deliberations and smoothed its dealings with the Commander-in-Chief All superfluous appointments were cut down and the overgrown transport establishment, which maintained large numbers of elephants, camels, bullocks, wagons and carts was drastically cut down. Military reorganization necessitated police reform, and for this a Commission was appointed The question of the Indian navy was also taken up, and Wilson soon discovered that it was a sorry waste Work at such high pressure was too much for Wilson in the broiling climate of India, and worn out by work and worry, he died of dysentery on 11 August 1860 'No ancient Stoic or modern Red Indian', wrote Frere, 'could have met death more composedly, or made more calm preparation for carrying on the various schemes he left incomplete'[1]

Wilson was a master-builder Half-measures did not satisfy him. He had in his mind plans for a thorough financial reorganization of India—plans based on sound economic theory tested by strong common sense; but, as Frere wrote, it would have taken him 20 years to work out those plans[2] Had he been less ambitious, he might perhaps have been spared for a longer period of service; but he was one of those great men who will risk anything in the interests of the cause they love.

§5 *Laing's Budgets, 1861 and 1862*

Wilson's successor was Samuel Laing, M.P He was a man of great financial experience, but relied much less than Wilson on the fundamental notions established by economic science, and was much more concerned with the practical needs of the hour.[3] 'The broad principles of common sense which apply to private, apply equally to public affairs,' he said, 'and that which is not simple is seldom sound'[4] Laing found that considerable suspicion had been aroused by the imposition of the income-tax, among both Indians and Europeans, and he soon came to the conclusion that the new tax should be abandoned at the earliest opportunity. On the question of military retrenchment, he was at one with

[1] To Major F Marriott, 11 August 1860 See J Martineau, op. cit., p 312
[2] To Sir Charles Wood, 23 November 1860 ibid., p 313
[3] Sir Richard Temple, *Men and Events of My Time* (1882), p 212
[4] Financial Statement, 1861.

Wilson, but he did not favour economy at the expense of efficiency, and he said. 'Depend upon it, the paltry saving of today will come back with tenfold expense and hundred-fold discredit on the morrow.' Further, there were great difficulties at the time in carrying out Wilson's plans in regard to retrenchment. 'Consequently the expenditure still remained intolerably high, and the current deficit of more than £6 millions annually which Wilson intended to avert, threatened to last. As no loans had been raised recently, the continuance of deficit drained the cash balance of the Government to a very low ebb.'[1] The year 1860-1 ended with a deficit of £6·6 millions.

Laing proposed to meet the financial difficulties, firstly by retrenchment and secondly by fostering revenue By cutting down the overgrown demand for stores, and by the reduction of the native army, he retrenched military expenditure by £3·3 millions and hoped eventually to bring it down to £12 millions. He wanted to reduce the army charges in England, by making the British Government bear a part of the cost of the reserve establishments in England. He said

> The day is past when England can consider India as a sort of milch-cow, on whom to draw for a little here and a little there in order to round off an English budget or ease an English estimate. Strict and impartial justice must be the rule in all money matters between England and India, if England wishes to get a return for her capital which will soon amount to £100 millions invested in Indian securities and railways, and if she wishes to see India become, every day, more and more the best source of supply for her raw produce and the best market in the world for her staple manufactures.[2]

Laing also proposed to reduce the expenditure on the navy, and he agreed with Wilson that the Indian navy should be replaced by a small force of the Royal Navy

Laing was from the first impressed by the dangers and difficulties of equitably raising an income-tax in India. But at the same time he admitted that the traders and capitalists of India should contribute in a fair measure to the public revenue. What he disapproved most in the income-tax was the prying into private affairs that it involved and the extensive demoralization that it was bound to cause. He therefore preferred a graduated licence tax on the lines suggested by H B. Harrington. Further, he thought that to make the taxable minimum as low as £20 was thoroughly unsuited to Indian conditions. However, as the financial situation was still bad, he agreed to the continuation of the income-tax, as a temporary measure, for one year.

Laing also increased the salt duty. Owing partly to the increase in wages all over the country and partly to the

[1] Sir Richard Temple, op cit, pp. 216-7.
[2] Financial Statement, 27 April 1861.

cheapening of salt resulting from railway expansion, he thought that a slight increase in duty would be easily borne by consumers. Thereby he hoped to find an additional revenue of £2 millions. Thus partly by retrenchment and partly by fresh taxation he expected to meet the deficit of £6 millions.

Two months afterwards Laing was taken ill, and he had to go to England on short leave. In his absence, Sir Bartle Frere, Member of the Executive Council, carried on the work. The revenue under opium showed a great fall, and to make up for it, Frere proposed to levy the licence tax and proceeded with the bill which was still pending. The old assessments under the income-tax were also continued In this manner the deficit was reduced to £150,000 The licence tax was, however, not imposed; for, when Laing returned, he reported that the financial position was no longer embarrassing and decided to repeal the Act. A licence tax, he said, would affect four or five million people, but it would produce only £500,000 or £600,000 [1]

In April 1862 Laing presented his second budget and showed that the anticipations set forth in the previous budget had been realized. Retrenchment had been pushed on and revenue had been expanding The course of military expenditure during these years was as follows

	£
1859-60	20,909,307
1860-1	15,838,980
1861-2	12,800,000
1862-3	12,200,000

Owing to the improvement of finances, Laing was able to carry out certain fiscal reforms dear to his heart. It was his wish to abolish the income-tax, but as the surplus expected was too narrow, he could only lighten the burden of the tax for the time being He therefore proposed to exempt incomes between Rs 200 and Rs. 500 from income-tax. The reason for doing so was not, as might be expected, that it was too burdensome on the poor, for he ' had no sympathy with socialist legislation which would place taxation exclusively on the rich ' ' On the contrary,' he said, ' the poor as well as the rich, and often even more than the rich, are interested in the support of the state and the maintenance of social order, and the middle and working classes are those who, in the long run, suffer most from the seductions of political demagogues and from the sickly sentimentality of injudicious philanthropists.'[2] But there was another reason for giving it up. While two-thirds of the incomes taxed were between

[1] *Legislative Council Proceedings*, 26 March 1862
[2] *Legislative Council Proceedings* (1862) p 135.

Rs 200 and Rs. 500, the total yield from such incomes was only £350,000. Further, oppression and injustice were greatest in regard to such incomes. On these grounds he abolished the tax on lower incomes

Although Laing was not a doctrinaire free-trader, he was even more keen than Wilson about freeing the foreign trade of India from tariffs. In 1861 he reduced the duty on cotton twist and yarn from 10 per cent to 5 per cent. at a loss of revenue of £40,000; and in 1862 he reduced the duty on yarn to 3½ per cent. and that on cotton piece-goods to 5 per cent On other articles the reduction was not considerable The reasons which weighed with him in cutting down the duty on cotton piece-goods were (1) that the duty applied almost exclusively to British manufactured goods; (2) that it was impossible to maintain customs duties at a high rate; and (3) that it was a heavy burden on the consumer. Britain and India being parts of the same Empire, he said that a heavy import duty on imports from Britain 'comes very near in principle to a transit duty between parts of the same Empire'. He admitted that there were certain manufactures in India which deserved to be protected by means of import duties, but in the case of cotton piece-goods protection could only be temporary and precarious and therefore could only be a 'fatal boon' to the nascent industry of India As for the burden on the consumer, he said

> Either the clothing of the people is a proper subject of taxation or it is not If it be so, on what possible principle can we impose a considerable duty on clothing which comes from abroad and levy no duty at all on cloth produced at home?[1]

Laing expected only a small surplus, but it turned out to be £1,827,345, the bulk of which was due to an unexpected improvement in the opium revenue

Thus the financial stringency resulting from the Mutiny passed away But it was not possible to abolish the income-tax immediately However, Trevelyan, who returned to India as Finance Member, reduced the rate from 4 per cent to 3 per cent. in 1863 The Income-Tax Act was due to expire in 1865; but Sir John Lawrence, the Viceroy, wished to continue it Trevelyan was firm and the whole Executive Council agreed with him On 31 July 1865 the Income-Tax Act expired Trevelyan considered the income-tax as 'a great financial reserve . complete in all its gear, ready to be re-imposed in case of any new emergency'.[2]

The revenue of India had increased by £9 millions between 1858-9 and 1862-3 It increased annually at the rate

[1] Financial Statement, 1862-3 [2] Financial Statement, 1865-6

of about £750,000. The extent to which the income-tax assisted the exchequer is clear from the following statement.

Year	*Total Revenue*	*Income-Tax*
	£	£
1858-9 . .	36,060,788	.
1859-60 ...	39,705,822	. .
1860-1 .	42,905,234	1,100,000
1861-2 . .	43,829,472	2,000,000
1862-3	45,143,752	1,900,000
1863-4 .	44,122,773	1,500,000

Laing was very optimistic about the improvement of revenues 'I know of no country', he said, 'of which it can be said that her ordinary revenue is increasing by £750,000 a year, while her expenditure has in one year been reduced by £4 millions, and that she is maintaining an equilibrium while spending out of revenue upwards of £4 millions on public works and another £1 million for interest on unfinished railways'[1]

[1] Financial Statement, 26 February 1862

CHAPTER VII

THE REFORM OF THE FINANCIAL SYSTEM

THE Mutiny passed over India like a whirlwind, carrying destruction in its train; but it also swept away several systems and institutions which had outlived their usefulness This was as true of finance as of any other field of administration As soon as the new Government under the Crown was formed, it was faced with the problem of reconstructing the financial system. The Company had built up a financial organization suited to its commercial preoccupations, but when commerce receded into the background and politics came to the fore, the defects of the old system showed themselves. There was no proper budgeting of income and expenditure; the accounts were a mass of confusion, and the whole financial machinery broke down under the strain of the Mutiny The reconstruction took several years to complete. A new relationship with the Home Government was established, a new system of budgeting and accounts was adopted, the currency was placed on an improved footing, and a new system of taxation was developed to meet changing circumstances

§1 *The Position of the Secretary of State*

By the Government of India Act (1858), the Crown assumed responsibility for the Company's debts and liabilities, its contracts and covenants The expenditure of the revenues of India thus came under the control of the Secretary of State in Council and no grant or appropriation of funds was to be made without his consent.[1] Public revenues were also to be raised on his authority. Under s. 53, a statement of the revenue and expenditure of British India was to be laid before Parliament annually, and in order to provide independent scrutiny, the Act ordained that an auditor of Indian accounts should be appointed with control of his own staff. He was appointed not by the Secretary of State but under the Royal Sign Manual, countersigned by the Chancellor of the Exchequer, and held office 'during good behaviour'. 'He can call upon the Secretary of State to produce papers, can examine any officer of Government in the United Kingdom in relation to Indian accounts, and must present an annual report in which he is free to express disapproval of any irregularity or offer any comment.'[2] The Secretary of State was required by law to lay before both Houses annually a statement of the position of Indian

[1] S 41 [2] Sir Malcolm Seton, *The India Office*, p 39

finances, and this provision in the Act necessitated the annual Indian budget debate. It was not really a budget debate, because Parliament was not asked to approve the proposed expenditure, but was merely informed of the accounts of the last completed year and the revised estimates of the current year. However, this annual debate gave Parliament an opportunity to review every aspect of Indian affairs. The House could go into committee and discuss the accounts. Many amendments used to be tabled, but in practice only one was discussed and brought to a division [1] The vital question was as to the proportion of the cost of Britain's foreign policy which Indian revenues should legitimately bear The Secretary of State stood as the custodian of Indian interests and was not always successful in his advocacy. Prolonged correspondence often went on, and in most cases it was not easy to convince the Prime Minister and other members of the Cabinet. Lord Ripon once wrote: 'The question of what expenditure ought to be thrown upon Indian revenues is the only subject on which Gladstone is quite deaf to the voice of justice '[2] The War Office has been generally more powerful than the India Office However, Parliament tried to be fair, and in some instances it prevented certain charges from being thrown on the Indian revenues although the Secretary of State in Council had sanctioned them.[3]

There is no doubt that the Secretary of State obtained a far stronger position than the authorities whom he replaced A divided executive cannot be as energetic as an undivided one In the old regime, the Board of Control and the Company's Court of Directors supervised the Government of India, but the interests and policies of these two bodies often clashed, as they were bound to; and such collision weakened both of them In theory the Secretary of State, too, was hampered; on the one hand, he had to look to the Cabinet for support, and on the other, his Council had to be consulted. But in practice, neither of these authorities curtailed his freedom, whilst from both he received plenty of technical advice. The Council at first claimed to exercise some real power, but the Act of 1869 permanently weakened it

Had Parliament's new position in respect of India been real, the powers of the Secretary of State would have been weakened, but it was not so In theory Parliamentary supremacy over India was made complete by the Act of 1858; but in reality the interest of Parliament in India soon vanished and revived only when violently roused by some provocation. Paradoxical as it may seem, Parliament appears to have ceased to exercise its control as soon as it received the right [4] A few members of Parliament, it is true, took an interest in Indian administration; and

[1] Since 1919, the discussion on the Secretary of State's salary has replaced the budget debate, ibid , p. 66
[2] L. Wolf, *Ripon*, vol. II, p. 56.
[3] Lord George Hamilton, *Parliamentary Reminiscences* (1886-1906), p. 258
[4] *Report on Constitutional Reforms* (1918), p 20

occasionally interpellations were made and duly answered. Every year annual accounts were placed before Parliament, and the members debated on them in right earnest Occasionally, inquiries were carried out by Parliamentary committees when specific complaints were made about administration Thus in 1870, a select committee of the House of Commons held a prolonged inquest into the financial condition of India. Royal commissions have also inquired into various aspects of Indian administration. All this, however, did little to check the power of the Secretary of State Only a few members took any interest in India, and Indian debates were held in the thinnest house of the session. The inquiries held were nothing in comparison to the detailed reviews made by Parliament when the Company was in power. But Parliament was too greatly preoccupied to be able to interfere in the detailed administration of India, and as a natural result, the power came to be centralized in the Secretary of State. But the extent of the power wielded by him depended on the place he held in the Cabinet of the day It must be remembered that it has been the growing practice to select a politician of the front rank for the India Secretaryship

§2 *The India Office and the Government of India*

The unique position thus gained by the Secretary of State enabled him to supervise Indian administration effectively. In the days of the dual control from Leadenhall Street and Cannon Row, masterful Governors-General like Wellesley and Dalhousie found it possible to have their own way in many things, but when the control at Home came to be vested in one single individual of dominant political position, it was no longer possible to flout the authority of the Home Government. The increased facilities for rapid communication between England and India also strengthened the hands of the India Office After the completion of the submarine cable by way of the Red Sea in 1870, the Secretary of State was enabled to intervene effectively in the affairs of India.

Even after 1870, the personal equation had much to do with the relations between the Secretary of State and the Viceroy. Although as a general rule the subordinate position of the Government of India was recognized, there have also been occasions when the Viceroy regarded the Secretary of State as the convenient mouthpiece of his policy in the Cabinet and Parliament. Ordinarily the opposite has been the true position. Although Lord Ripon who filled both positions one after the other expressed the view that 'the Government of India ought to be made as much as possible the real executive of that country and the functions of the Home Government should be restricted in practice within narrow limits', the Home Government repeatedly claimed supreme

control over the Indian administration and there was nothing till 1919 to weaken that position in any manner.

Soon after the Act of 1858, Whitehall began to assert its supremacy in unmistakable terms Sir Charles Wood, the first Secretary of State,[1] was a man of strong determination, and he kept a vigilant watch over Indian administration; but let it be said in justice to him that in most cases his interference was for the definite purpose of protecting the interests of the Indian people.[2] For instance, he stoutly opposed the legislation of the Governor-General's Council for enforcing indigo contracts entered into by European planters,[3] since that legislation sanctioned criminal proceedings for breaches of contract Wood found this grossly unjust to the Indian population, and as the *Edinburgh Review* wrote, 'this was conclusive proof of the necessity of having a controlling authority at Home which will be competent, vigilant and strong'.[4] Wood stood firm and repeatedly vetoed the bills passed by the Council When subsequently he insisted on modifying a bill pending in the Council (1864), the Government of India protested on the ground that the Indian Councils Act did not provide for such interference in the case of bills before the Council.[5] Wood pointed out that the Home Government were responsible to Parliament for Indian legislation and therefore had the power not only of vetoing bills already passed in the Indian Councils, but also of modifying them in the draft stage

The same question again cropped up in 1869 when the Duke of Argyll was the Secretary of State. He insisted that the laws prepared by the Indian Law Commissioners should be passed in the form in which the Secretary of State, on the report of the Commissioners, approved them [6] But Lord Mayo's Government[7] protested that such a procedure would 'invest the Secretary of State with the character of the legislator for British India and would convert the Legislative Council into a mere instrument to be used by him for that purpose' In this connexion the Secretary of State most emphatically asserted[8] that 'the final control and direction of the affairs of India rest with the Home Government and not with the authorities appointed and established by the Crown under Parliamentary enactment in India', and

[1] Strictly speaking, Lord Stanley was the first Secretary of State, but he held the post only for a few months

[2] For a different point of view, see Sir Charles Trevelyan's evidence before the Parliamentary Select Committee (1873), *Report*, pp 21-31 and *passim*

[3] Algernon West, *Sir Charles Wood's Administration of Indian Affairs* (1867), ch v

[4] op cit , p. 44

[5] Parliamentary Papers (1876), vol LVI, pp 4-5

[6] ibid ; also letter, 16 March 1869

[7] Letter, 22 March 1870.

[8] Letter, 29 November 1870

that 'the latter Government were necessarily subordinate to the Home Government' Argyll also wrote·

> The vastness and importance of Her Majesty's Indian dominions, however they may add to the dignity of those who are called on to administer its affairs on the spot, in no degree exempt them from the necessary tie of subjection, but rather render it more incumbent on Her Majesty's advisers and counsellors at Home to maintain the more carefully the existing order of things as defined by constitutional usage and by what I may term the fundamental axioms of the connexion between this country and India.

The Government of India had no alternative but to yield

Four years later, when Lord Northbrook asserted the fiscal autonomy of the Government of India, Lord Salisbury firmly refused to concur on the ground that the fiscal policy of India should be controlled by Parliament Salisbury, on that occasion, detailed the consequences of the desired autonomy in very significant terms. He wrote

> In scrutinizing the control exercised over the Government of India by Her Majesty's Government, and the grounds for maintaining that control, it must be borne in mind that the superintending authority of Parliament is the reason and the measure of the authority exercised by the responsible ministers of the Crown, and that if the one power is limited, the other must be limited at the same time.[1]

Indeed the claim of the Indian Government was premature, and there was no chance of its being conceded then, as there was among certain classes of people in England a general distrust of Anglo-Indian officials Salisbury was himself under the same influence and made it a general practice (which subsequently grew stronger) to regulate administration in India by private correspondence with the Governor-General

If any Viceroy could have successfully resisted the power of the Secretary of State it was Lord Curzon; but even he failed to get his own way when in 1904 he disagreed with the Home Government on the question of military administration; and it cost him his post In bitterness, he wrote later· 'The Indian Satrap has in many cases found the Viceregal throne an altar of sacrifice quite as much as a seat of glory.'[2]

The authority exercised by the Secretary of State over the Government of India was first and foremost financial. As already shown, the Act of 1858 vested in the Secretary of State in Council the entire responsibility for the financial administration of India. But it was not possible for him to exercise such authority in its entirety in a country 6,000 miles away, and therefore with a view to facilitating the speedy transaction of public business, the

[1] *Parliamentary Papers* (1876), vol LVI, pp. 2-5.
[2] *British Government in India*, vol II, p. 252.

Secretary of State from time to time prescribed limits within which expenditure might be incurred by the Government of India without previous reference to him on each occasion. At first, these delegations were embodied in executive orders, rules and regulations, but in 1889, a resolution was issued by the Secretary of State specifying the limits of the Government of India's financial powers. Under this resolution, the sanction of the Secretary of State was required for :

(1) The creation of an appointment, the salary of which exceeded £200 a year;
(2) The raising of the salary of an existing appointment to an amount exceeding £333 a year;
(3) The revision of an establishment at a cost of more than £1,667 a year;
(4) The incurring of expenditure which under any of the various codes required the Secretary of State's sanction;
(5) The construction of a public work from borrowed funds;
(6) The construction of a public work charged to revenue which was estimated to cost more than £83,000; and
(7) The construction of any railway except short additions of local interest.

This was understood to be a proper delegation of authority to the Government of India, but it was later discovered that the Secretary of State had no power to divest himself of responsibility as regards expenditure, and it was held that any such delegation of control to a Government or other authority in India would be an evasion of the spirit and infraction of the letter of the Act of 1858. The matter was taken up in connexion with the Royal Commission on Decentralization, and the necessary action was taken, as we shall see later [1]

§3 *Exchange Operations*

Among the many important duties that devolved on the Secretary of State was the management of the exchange operations between England and India. Large payments had to be made annually in Great Britain on behalf of India by the Secretary of State. These payments, usually called ' Home Charges ', included (as now) interest on debt, pensions, payments to the War Office, cost of Government stores, etc. Some part of these disbursements was met by loans raised in England and the rest by means of remittances. These remittances were generally effected by the sale by the Secretary of State of bills of exchange (commonly called Council Bills) and telegraphic transfers to be met by the Government of India, and when the whole amount could not be so met, gold held by the Government of India in the Paper Currency

[1] *Indian Statutory Commission* (1928), vol. V (Memoranda), pp 1008-9.

Reserve had to be consigned to London, or, in later years, gold in that part of the Paper Currency Reserve held in London would be drawn upon.

The system of drawing funds from India by means of bills of exchange dates from the days of the East India Company; it appears to have been practised, although rather intermittently, from 1834 to the time of the Indian Mutiny. It was entirely suspended in the years 1857-62 but was resumed in the latter year, and has been almost continuous since [1] Sales of Council Bills were at first made monthly, and at a fixed rate of exchange. This underwent several changes subsequently. Sales became fortnightly and later weekly, and allotments to the highest bidders took the place of sales at fixed price, and tenders were invited for telegraphic transfers as well as for bills Applications were later received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly sales, called 'intermediates' and 'specials'

Soon after the practice of drawing bills on India was resumed in 1862, there was a great demand in England for Indian cotton (owing to the American Civil War), and therefore the bills on India were in great demand Down to November, the rate of exchange realized varied from 2*s* $\frac{7}{8}d$ to 1*s*. 11$\frac{1}{2}d$., but when the demand fell off lower rates had to be accepted. In 1866 the demand for bills failed, and gold had to be shipped from India. The progress of railway construction in India also influenced remittances materially after 1869 The system of making advances on the hypothecation of goods, which sometimes found favour with the East India Company, was several times considered after the Mutiny, but it was not revived.

§4 *The Finance Membership*

The central feature of the new financial machinery was the budget system and an efficient system of accounts. It was for introducing these new reforms that the Government created in 1859 the new post of the 'Financial Member of Council' and appointed James Wilson as the first holder of that post. Although the official designation of the new officer was as above, he was often known as the Finance Minister, in common parlance; and eventually the title 'Finance Member' came into vogue The situation in India was then such that a person of great experience and independence was necessary 'Everybody here has lost confidence in Government and in every one else,'[2] wrote Frere. The general opinion was that nobody then in India was competent to set right the financial difficulties of the country.[3] Therefore the Home Government decided to send out a man with long experience in

[1] Sir Henry Waterfield's evidence before the Fowler Committee
[2] Frere's letter to Sir George Clerk, 9 May 1860
[3] Frere's letter to H. D Seymour, February 1859.

the British Treasury. This practice was continued for a whole decade. Thus came Wilson, Laing and Massey; even Trevelyan, although originally of the Indian service, had worked in the British Treasury for a good many years before he came out again to India. After Massey, the Government appointed in succession three members of the Indian Civil Service as Finance Member, namely, Sir Richard Temple, Sir William Muir and Sir John Strachey. But in 1881, the practice of obtaining the services of a British financier was revived, and this practice was resorted to now and then throughout the century No doubt there were in the civil service persons quite competent to fulfil the duties of the Finance Member; but, for obvious reasons, they were not able to command that authority which a person with British experience and unconnected with the Indian services could command Frere had made pointed reference to it in one of his letters 'The great advantage we have derived from Wilson and Laing', he said, 'has been the sort of authority with which they came out, and which enabled them easily to overcome obstacles which might otherwise have been serious.'[1] However, he admitted that this advantage often cut both ways and made their errors in proportion of graver moment.

In all that relates to management of loans, budget and audit and general organization and management, we have been great gainers through Wilson's and Laing's labours But at what cost? With the loss of Wilson and Ward, Laing's breakdown, the damage of Trevelyan's official repute and the interruption of his usefulness, the increased acerbity of local jealousies, the consequent delay and loss of time in effecting real reforms—will these be balanced by what we have gained and is what we have gained equal to what we might have had, if what you began early in 1859 had gone on undisturbed by external interference?[2]

Theoretically the powers of the Finance Member were nearly as large as those of the British Chancellor of the Exchequer, but in practice there were great differences. In England the Treasury has always wielded great influence, and the rise of democratic government has not substantially weakened it. The Indian Finance Member inherits no such great traditions, and his influence greatly depends on support from the Viceroy This question received much attention from the Royal Commission on Indian Expenditure (1894-1900). Sir Auckland Colvin stated before it that after 1885, when military considerations gained the upper hand, the powers of the Finance Member to control expenditure came to be undermined Sir David Barbour supported this view and opined that the Viceroy held the key If the Viceroy supported the Finance Member, the latter was still powerful against his colleagues, but for some years military considerations

[1] Letter to Lord Canning, 11 June 1861 [2] Ibid

were in the forefront, chiefly owing to the Russian scare on the north-west frontier [1]

These views were not shared by several other witnesses, including ex-Viceroys like Northbrook, Ripon and Lansdowne. No doubt, the Finance Member did not have the power of the Treasury in England, but it was not possible to place him in the same position as the British Chancellor of the Exchequer. Lord Cromer, sometime Finance Member, agreed that the Viceroy had great power, but he was not in favour of weakening it, as it was his function to give a unity of action to the whole Government.[2]

The Commission did not find reasons for suggesting any modification in the existing position 'When questions of national defence, or, it may be, of spirited policy, have gained the public ear, financial considerations lose weight, not only in India but elsewhere, and the balance can only be restored if, and when, the public ceases to demand large expenditure.'[3]

§5. *The Budget System*

Wilson's greatest achievement in India was the establishment of the budget system, whereby the financial estimates of each year are arranged, considered and approved by the Legislative Council before the year commences The object of the new scheme was clearly expounded in the Financial Resolution of 7 April 1860, which was published in the *Government Gazette* for general information. It explained the advantage of framing estimates of the anticipated income and of the proposed expenditure of the year before the year commences, especially in the case of a large country like India with several provincial administrations and large imperial departments [4] Provision was made for systematizing both civil and military expenditure A Military Finance Commission had already been appointed[5] to scrutinize the military accounts and carry out economies It was ordained by the resolution of 7 April that the whole of the accounts of the various departments of the army, after examination by the several provincial Governments should be transmitted to the Military Finance Commission, and that the Commission should transmit the aggregates to the Audit Board for audit This Commission was later reconstituted and designated the Military Finance Department, and a resolution of the Military Department dated 6 July 1860 laid down detailed instructions for the guidance of the new department.

A similar committee was appointed by a resolution of 11 May 1860 to report on the manner in which the specific sums granted in the budget should be placed to the credit of the various

[1] *Report* (1900), vol IV, pp 18-20, also vol I (Evidence), qq 1856, 1869, 2924.
[2] Vol. II, pp 213, 518
[3] *Report*, p 21.
[4] *Moral and Material Progress* (1860-1), p 17 et seq
[5] 29 June 1859

spending departments, the mode in which such expenditure should be accounted for to the local accountants, the way by which the local accountants should account to the Audit Department, and the manner in which the Audit Department should be constituted. A committee was also appointed on 6 July to scrutinize all the civil charges, the civil and military policies and public works, with a view to carrying out economies.

The Budget and Audit Committee in its interim report submitted two alternative schemes for improvement The plan, which was eventually accepted, was a combination of the English and Indian systems. The duties of the Auditor-General under the English system were assigned to the Accountant-General, and the local accountants under him carried out detailed audit of the local accounts

Later the Committee laid before the Government a classified set of the budget estimate forms to be used under the new system, and these forms were approved by the Government and were circulated to all civil departments and provincial Governments. The various heads under which appropriation should be made were also drawn up by the Committee

After giving effect to these recommendations, the Government constituted the Auditor-General and the Head of the Military Finance Department into an Imperial Audit Board, with instructions to act together in all matters of general organization, policy and economy as affecting estimates, budget, audit and accounts. In other respects they worked as independent heads of the civil and military finance departments

The advantages of the new system were : (1) it ensured a complete review beforehand of the income to be expected and the expenditure to be incurred in the year, (2) it ensured scrutiny of expenditure; and (3) it led to the formation of all-India standards of account and audit

The budget system thus brought into being did not for a long time come under popular control of any kind. Till 1872 the budget was presented annually to the Legislative Council with a speech by the Finance Member describing the financial position of the country Technically no budget discussion was possible, as under the Indian Councils Act of 1861 the Legislative Council could not meet for other than legislative business But in reality, the budget proposals were discussed, sometimes rather fully, in connexion with the taxation bills which were generally introduced along with the budget As we shall see, Lord Mayo in particular gave opportunities for a full discussion of the financial position of the Government But between 1873 and 1876, there were no such Finance Bills, and the annual budget was not even presented to the Council; it was merely published in the *Gazette of India* in the form of a minute. In 1877, when fresh taxation had to be imposed, the system of presenting budget proposals to the Council

was revived, but this lasted only till 1883. Between 1883 and 1892 only two budgets (1889 and 1890) were presented to the Council and the rest were printed in the *Gazette*. The right to discuss the budget was not granted to the Imperial Legislative Council till the Indian Councils Act of 1892 provided for a general discussion of the financial statement. Provincial budgets came into being in 1872 but they were not then presented to the Legislative Councils.[1]

The first budgets varied in form and content. The credit of systematizing the Indian Budget Statement goes to Sir David Barbour, who in 1890 divided it into two parts, the first part dealing with general policy and the second containing details of financial results. From 1900 the first part bore the signature of the Finance Member and the second that of the Finance Secretary.

§6 *Improvement of Accounts and Audit*

The system of accounts then in vogue was defective in many ways The Company's system of accounts—or rather lack of system—survived the Mutiny, with all its 'obsolete entries, irrecoverable balances' and 'complicated inter-presidential and inter-departmental payments and advances', which led to great confusion [2] Soon after the transfer from the Company to the Crown, the Government decided on an inquiry, and in 1861 obtained the services of two officers of the British Treasury, M H Foster and H W S Whiffin [3] They scrutinized the system of accounts of the Military and Civil Departments, and in the case of the Public Works Department, they were associated in a Commission with officers of that department Their report was presented in September 1862, and in accordance with their recommendations the systems of accounts of the various departments were modified with a view to increasing clearness and accuracy, and thus made to accord with the new budget system introduced by Wilson.

Under the old system the record of revenue and charges in the annual accounts differed widely from the actual income and the actual expenditure out of the ways and means of the year. The revenue received in a year was sometimes credited as a receipt of the previous or the next year; and similarly the expenditure of a year was not the same as the actual disbursements of that year. The cost of stores was not necessarily charged in the year of purchase against the ways and means of that year, but was debited to a separate stores account. These defects were removed on the recommendation of the Commissioners, and the records of revenue and charges in the regular books of accounts were brought into

[1] See ch. xiii [2] Supra, p 48.

[3] *Report of the Commission of Inquiry into the Constitution and the Mode of Conducting the business of the Financial Department and of the Officers of Audit and Account attached to that Department* (Foster and Whiffin), 7 September 1862

accord with the actual receipts and payments of the year, monthly accounts of audited receipts and charges were substituted for an annual account which contained partly unaudited charges, and the completion of the revenue and finance accounts earlier than under the old system was ensured. These improvements were first carried out in the Revenue and Finance Accounts of 1864-5 and 1865-6.

The civil, military and public works accounts were formerly in a disjointed state. These accounts were entered in the books of the three presidencies, and were not brought togther in a combined all-India account This interfered with the central control over finance, and made the Government of India's supervision ineffective. This was rectified by bringing together the accounts of the presidencies and provinces in the books of the Comptroller-General of Accounts, and thus the Government of India came to exercise an effective control over the financial administration of India.

Under the old system, the accounts in India did not tally with the Home accounts This was remedied by exchanging with the India Office a revised form of half-yearly account current

The pre-audit system was maintained, but its working was improved with a view to making audit and payment simultaneous

Above all, the budget estimates were simplified, re-classified and rendered uniform, so that all the estimates could be brought into one general budget statement for the whole of India, including the receipts and expenditure in England. An efficient system of audit of all accounts was also established

Although these improvements were made in the light of British experience, the Indian budget and accounts systems did not lose their individuality. As the Royal Commission on Indian Expenditure pointed out, important differences existed between the British and the Indian financial systems In England, the central account of the State kept at the Treasury was made up daily, and every evening the Chancellor of the Exchequer obtained an account of the income and expenditure at the close of business on that day The great Revenue Departments in London paid daily into the account of the Exchequer at the Bank of England all the money which was collected in London or received from the provinces. The Treasury issued daily certain imprests from the Exchequer account to the spending departments These Exchequer receipts and issues formed the basis of the British budget.

The Indian system was necessarily different. It was based on revenue to be actually received and expenditure to be actually defrayed within the year, but the process of ascertaining them was necessarily slower The revenue was collected in 266 district treasuries, at which the expenditure within the districts was defrayed. Statements of receipts and issues were promptly sent to the headquarters, and such information reached the Finance

Member at Calcutta soon after every month was out, and by the close of that month an account of the revenue and expenditure throughout India during the previous month was made up. Such a delay was inevitable in a country of vast distances like India. One inconvenience resulting from this is that, as the Indian budget is opened before the close of the year, the results of the completed year cannot be given Hence the need for a revised estimate for the expiring year, which, according to the rules, was to be made up of the actual revenue and expenditure of the first eight months and an estimate for the remaining four months of the year.[1] Thus three statements were required in the Indian budget. The *budget estimate* for the ensuing year, the *revised estimate* of the expiring year, and the *actuals* of the previous year. In the case of Great Britain and other western countries, there has not been any need for revised estimates as the budget is generally presented after the close of the financial year.

The divergence between budget estimates, revised estimates and actuals was very pronounced during the first ten years after the budget system was introduced In nearly every year, the actuals varied greatly from the estimates, and even from the 'revised' estimates This is particularly notable in the four years beginning with 1865-6.

Year	*Estimate* (£)	*Actual* (£)
1865-6 .	−336,000	+1,500,000
1866-7 .	−73,800	−2,500,000
1867-8 .	+1,764,478	−1,000,000
1868-9 ..	+1,890,000	−2,542,861

The estimate for 1868-9 was for a surplus of £1·89 millions, but the revised estimate disclosed a deficit of £839,000; and when the accounts came, the actual deficit was found to be £2·5 millions Such recurring discrepancies evoked much criticism in the Imperial Legislative Council. W. H. Massey, Finance Member, attributed the divergence partly to the 'precise' method of accounting adopted in pursuance of the report by Foster and Whiffin. But the principal cause in his opinion was the vastness of the country. He said

> The Government of India is charged with the general superintendence of five great subordinate Governments and three minor administrations It is no easy matter to exercise a political control over distant dependencies, and the difficulty of such control is greatly increased when you have to supply and regulate the expenditure of these several states, varying as they do in the extent of their territory, in the races by which they are inhabited, in their social

[1] But, with a view to getting as correct a revised estimate as possible, the Finance Department used to wait for nine or even ten months Sir Richard Temple in Legislative Council, 19 November 1869

and commercial progress and in every element which goes to constitute a fixed guide and criterion in determining, according to European ideas, the scale of expenditure suitable to each particular province. Accordingly, we are compelled to concede a wide, and practically an unlimited, discretion in such matters to the local Governments and administrations, who are themselves forced to grant a large measure of license to distant ministerial officers. Thus we have not one budget to deal with, but eight local budgets complete in all their parts, and over neither one of these eight budgets has the supreme Government that control which is necessary for the purpose of finance.[1]

During Lord Mayo's viceroyalty, endeavours were made to rectify this defect But the uncertainties of the opium revenue and the lack of a proper system of financial control in the Public Works Department, made it difficult to make satisfactory budgets. In this connexion, Mayo said

> Account is a record of fact, estimate is a matter of opinion and forecast, there is as much difference between an account and an estimate as there is between a good eight-day clock and the divining rod of a magician An American humorist, Mr Artemus Ward, gave very sound advice to his disciples when he said 'Never prophesy unless you know' Now, unfortunately, my Honourable friend [the Finance Member] is obliged to prophesy when he does not know, when he cannot know and when no one else knows [2]

However, thanks to the indefatigable labours of Mayo and his Finance Member (Sir Richard Temple), the discrepancies above noted were largely rectified.

The official year of account in India formerly closed on 30 April, but from 1866-7 it closed on 31 March This change was made chiefly with a view to the earlier transmission of the annual accounts and estimates to England for submission to Parliament. The transactions of 1866-7 were therefore confined to eleven months.

In 1871, a Select Committee of the House of Commons on East India Finance remarked in its interim report that it was unable to proceed with its work 'in consequence of the accounts of India not having been prepared in such a manner as to show the results which should be known to enable a judgement to be formed on important questions affecting the finances'. It therefore recommended that instructions should be given to the Government of India, so that the accounts of the various Governments in India might be prepared 'on a uniform basis and in sufficient detail' and 'with exact explanations of important changes in system'.[3] Accordingly, the Government of India carried out various modifications in the method of accounting and deputed

[1] Financial Statement, 1867-8, pp 137-8
[2] *Legislative Council Proceedings*, 21 March 1871, p 432.
[3] *Select Committee Report* (1871), p. iii

E. F. Harrison, Comptroller-General of Accounts, to England to carry out further improvements and to present the Government's accounts to the Parliamentary Select Committee. After his return, a thorough reform was carried out, and the finance accounts of the Government of India thus became clearer and more precise than before.

§7 *The Indian Currency System*

The need for currency reform was also pressed on the Government after the Mutiny The position before 1858 may be briefly sketched here. In the eighteenth century, gold, silver and copper coins of numerous denominations passed current in India Gold mohurs were used in Bengal and Bombay, and the gold pagodas of Madras freely circulated in the presidency and were used in the payment of revenue Side by side with them silver rupees of various denominations were also used, but four varieties eventually predominated, namely

Denomination	*Pure silver content (grains)*
Sikka rupee (Bengal) .. .	175·9
Surat rupee (Bombay)	164·7
Arcot rupee (Madras)	166·5
Lucknow rupee (N India)	165·2

Only the first denomination (Sikka rupee) retained the full value of the Mogul rupee; the other three had deteriorated Accounts in Bombay and Bengal were kept in 'current' rupees (representing the estimated value of the standard coin)

The inconvenience of having a variety of coins was long felt; a further trouble arose when gold appreciated after 1820. The Company tried to maintain a parity between gold and silver coins, but it soon became difficult, and by the working of Gresham's law gold was driven out of circulation. A drastic reform was therefore necessary By the Currency Act of 1835, silver monometallism was adopted in India, with the rupee as the sole legal tender. The coinage of gold mohurs was permitted by the Act, but it was not to be legal tender and had to pass at its market value. In 1852, public treasuries were prohibited from receiving gold coins. The new rupee was based on the Arcot rupee of Madras, weighing 180 grains and containing 165 grains of pure silver. Half-rupees, quarter-rupees, annas and pies were also coined on a uniform basis Further, the management of the currency was taken over by the Governor-General in Council, and henceforth remained entirely a central concern. Most of the Indian states also accepted the new currency partly or wholly,

and thus for the first time, the currency system of India was unified.

A paper currency was also in use before 1858 and this gave some elasticity to the currency system Under the Acts of 1839, 1840 and 1843, the Presidency Banks of Bengal, Bombay and Madras were authorized to issue notes payable on demand, but the circulation of the notes was limited to the presidency towns. Outside those towns, a discount had to be paid; even in Delhi and Agra, the discount came to Re 1 for every 100 rupees. Nor were they legal tender Indian traders went on using *hundis* in the traditional style. The Government had frequently to transport treasure from treasury to treasury, and in this work the 'Native' army was employed.[1] Thus, the currency system of the time was unsuited to the needs of modern economic life

Sir Charles Wood held strong views on currency He took an active part in the measures leading up to the Bank Charter Act of 1844, and as Chancellor of the Exchequer he had to deal with the monetary crisis of 1847 Wilson, the Finance Member, had also settled views on currency, and apparently they were not quite in agreement with those of Sir Charles Wood Soon after his arrival, Wilson drew up a minute[2] recommending the withdrawal of the paper currency then in circulation, the issue of Government notes with the authority of legal tender and the building up of a reserve in coin and bullion to the extent of a third of the notes issued, the rest being covered by Government securities Wilson died not long afterwards, and it fell to Laing to put through legislation on these lines The Currency Act of 1861 carried out Wilson's chief objects, but the constitution of the reserve was ordained on more orthodox principles which were then triumphant in England Sir Charles Wood wrote

> The sound principle of regulating the issue of a paper circulation is that which was enforced on the Bank of England by the Act of 1844, i e. that the amount of notes issued on Government securities should be maintained at a fixed sum, within the limit of the smallest amount which experience has proved to be necessary for the monetary transactions of the country and that any further amount of notes should be issued on coin or bullion, and should vary with the amount of the specie in the Bank according to the wants and demands of the public [3]

Wilson, with more liberal views on currency, might have resisted such a lead from Home, though perhaps without success But Laing was prepared to follow the orthodox view; anyway the Act of 1861 restricted the fiduciary reserve within strict limits, following the example of England Currency notes were not to be issued for sums below Rs. 10. Wilson's idea was to make

[1] I T Pritchard, op cit , vol I , pp 98-9
[2] 25 December 1860
[3] Dispatch to the Government of India, March 1860.

the five-rupee note the smallest paper currency, and this was carried out in 1871, when provision was made for the issue of five-rupee notes. A Department of Issue was established at Calcutta; Madras, Bombay and Rangoon became the other head offices of issue, each with subordinate offices in its circle. The Head Commissioner of the Department of Issue was the Master of the Calcutta Mint; the Master of the Bombay Mint was also made a Commissioner. The notes issued by each head office were legal tender only within its circle Notes were issued on the tender of current silver coin, standard silver bullion, other notes of the same circle or, if the Governor-General so directed, gold. By this reform the use of currency notes became popular, and that helped the growth of trade and commerce.[1]

Thus the Presidency Banks had to give up their right of note issue To compensate them for this loss, they were made bankers to the Government and were entrusted with the management of the Government debt In 1866 agreements were entered into with the three Banks specifying these terms. The terms on which Government balances were to be held became the subject of frequent correspondence between the Government and the Presidency Banks, but it is not proposed to deal here with the various changes that subsequently took place in this respect

The other measure on which the new Government set their mind was the introduction of a gold currency. Repeated attempts were made after 1860 to introduce a gold currency, but with no success. In 1864 the Chambers of Commerce of Bengal, Bombay and Madras, and the Bombay Association (representing Indian mercantile communities) memorialized the Government for the introduction of a gold currency, and the Government, while unwilling to make the sovereign legal tender, saw no objection to permitting the use of sovereigns and half-sovereigns coined in England or Australia, and to receiving them in the public treasuries as had been done before 1852 Accordingly, the Government notified that sovereigns and half-sovereigns would be received in payment of Government dues as the equivalent of Rs 10 and Rs 5 respectively The Directors of the Bank of Bengal pressed for making those gold coins legal tender, but the Secretary of State decided that the time was not ripe for the adoption of a gold currency. After 1873, silver depreciated and along with it the rupee, the drastic changes which this necessitated in the currency system of India will be dealt with later.

§8. *Indian Financial Statistics*

The various modifications sketched above have, perhaps, made the financial system more efficient and scientific, but they have certainly made the financial statistics of India (till 1885) of doubtful

[1] *Moral and Material Progress* (1872-3), p 13

value, at any rate for comparisons from year to year or from period to period. Statistical comparisons are not possible when frequent changes take place in the method of keeping accounts, in the unit of account and in the heads of income and expenditure.

The changes in the system of accounts have already been explained In the result, some heads of account which used to be lumped together were separated, while others were consolidated. Before 1859, the expenditure was classified under three[1] main heads, viz. (1) direct claims and demands upon the revenues including charges for collection and cost of salt and opium; (2) other charges in India; and (3) charges in England The second item comprised charges of the civil and political establishments, judicial and civil charges, public works including military buildings, military charges, marine charges, charges of the Eastern Settlements, mint charges and interest on debt[2] Wilson's budget statement of 1859-60 classified expenditure under ten heads, namely, cost of collection, interest charges in India, military charges, stores (in England), marine charges, civil charges,[3] marine stores, stationery, mint, etc , miscellaneous, and guaranteed interests on railway capital Wilson himself considered this classification to be unsatisfactory, and he contemplated, and his successor carried out, a more detailed classification of charges, and in the following year's budget expenditure came under twenty-six heads In the new classification, the cost of collection of the different items of revenue was given under separate heads, civil charges came under four separate heads (law and justice, police, education and political agencies), and the different charges met in England were consolidated under the now familiar term 'Home Charges'[4] The progress of classification did not end here In 1885-6 the number of items increased to 45, and not long afterwards they became 47 Thanks to the efforts of Lord Ripon and his Finance Member, Sir Evelyn Baring (later Lord Cromer), a systematization took place in 1885, and in the budget statement for 1886-7 the accounts of the preceding ten years were incorporated in a reclassified form. Even after this reform the accounts of the Government of India remained a mystery to most people

Other factors which undermined the comparability of accounts from year to year were (1) changes in regard to the entry of the expenditure, especially that on public works, of which an account will be given presently; and (2) the alteration of the financial year, which has been noticed already.

[1] Sir Richard Temple's *Memorandum on the Administrative Measures connected with Finance*, January 1869

[2] P N Banerjea, op cit , p 371

[3] Civil charges included all political, judicial and police establishments and all non-military public works

[4] From 1875 the item 'Home Charges' was split up under four heads, namely India, provinces, England and exchange This last item disappeared in 1899

The mystifying nature of the Indian accounts led to complaints from Parliamentary select committees and royal commissions. In 1885-6, the accounts of the years from 1861-2 were recast, but even the majority report of the Royal Commission on Indian Expenditure (1895-1900) did not think it safe to accept the figures given except for the totals of income and expenditure; and the minority report regarded even the totals as unreliable and accepted only the restatement of accounts by Lord Cromer which went back only to 1875-6.[1]

Another cause of confusion was the alteration of the unit of account at different times. The unit of account in common use has always been the rupee, and the Government received their revenues in rupees But, for a long time, the unit of account for budget purposes was the pound sterling Indeed the detailed accounts of the Government were kept in rupees and the only transactions in pounds sterling were the charges in England The use of sterling in financial statistics caused some confusion owing to the difference between the English and Indian systems of notation, but the confusion became worse confounded when the rate of exchange between India and England began to fluctuate from 1873 Before that date the rupee was nearly always equivalent to 2*s* and this had been fairly steady from 1835 when the rupee became the legal tender It was therefore easy to convert rupees into pounds, but from 1873 the value of silver declined and the rate of exchange between the rupee and the pound began to vary from day to day From 2*s* it fell to 1*s* 1*d* in 1893, but owing to the closing of the mints in that year the rupee appreciated to 1*s* 4*d* , and in 1898 it was stabilized at that rate. The ratio remained at that level up to the outbreak of the Great War

Two results follow from the depreciation of the rupee and its stabilization at a new parity Firstly, this makes the chronological comparisons of Indian revenues of doubtful accuracy owing to the change in the value of the unit of account. Thus a revenue of Re 1 crore would have been £1 million before 1873, but only £666,667 after 1898 Secondly, a further element of speculation was introduced into the Indian budget, which was even otherwise largely a matter of speculation. The budget is always made up before the beginning of the financial year, and no financier was able to say exactly, in advance, how much the sterling obligations would be during the ensuing year. If the rate of rupee exchange rose, the Home Charges became lighter, but if it fell, their burden was enhanced thereby. If the ' budget rate ',

[1] *Report and Minutes of the Royal Commission on the Administration of the Expenditure of India*, vol IV (Financial Report, 1900), pp 31 and 164

Stephen Jacob stated that a fair comparison could not be made of the expenditure of years prior to 1875, owing to the different modes of keeping accounts See vol I, p. 186.

i.e. the rate estimated in the budget, happened to be higher than the average rate during the year, there would be a deficit; if lower, there would be a surplus. As the Home Charges went on growing, especially after the increased investment of foreign capital in India, the fluctuation of exchange became an embarrassing factor to the Indian Government Up to 1886, such deficits were the rule owing to the demonetization of silver, and the Government entered under the heading 'loss in exchange' the difference between the actual rupee exchange and the traditional standard, which was 2*s*. After 1886, the Government adopted the system of giving the expenditure in India in the new unit of 'Rx.' (10 rupees) and the expenditure in England in £ The loss in exchange was then given in Rx and in the fourth column the total expenditure was given in Rx. In 1886 the accounts of the previous ten years were recast on this basis When the rupee was stabilized at the new parity of 1*s*. 4*d* in 1898, the above system was given up and the pound sterling was again adopted as the unit of account in the Indian budget, but the conversion of rupees into pounds was made on the basis of Rs. 15 per £ The loss in exchange was henceforward debited to the Gold Standard Reserve.[1]

All these changes have tended to mystify and confuse the student of Indian finance, and it is necessary, therefore, to be careful in dealing with the statistics of the nineteenth century.

[1] C N Vakil, *Financial Developments in Modern India*, pp 85 92, K T Shah, *Sixty Years of Indian Finance*, pp 42-57

CHAPTER VIII

THE FINANCING OF PUBLIC WORKS

§1. *The Need for a New Policy*

In no field of administration was the change of policy after the Mutiny greater than in public works. Before 1858, there was indeed a Public Works Secretariat of the Government of India, but the progress of public works was slow.[1] Lord Dalhousie gave a great push forward to public works activity, and during his period of office the outlay on public works (exclusive of railways) rose from £250,000 per annum to £2,000,000 per annum. Yet, the public works undertaken were chiefly for military purposes; road-making proceeded too slowly, irrigation made little progress, except in Madras and the North-Western Provinces; and railway construction was advancing at a snail's pace. In 1857 there were hardly 300 miles of railway in India.

The Government had long realized the economic value of irrigation to the country as well as the financial gain to themselves; but the Company, huckster-like, shrank from all schemes that involved large monetary expenditure. Any large scheme of public works had to be financed by loans, but loans were generally raised in India only for 'extraordinary occurrences' like war, and such loans naturally raised some alarm in England. Whatever public works were carried out by the Government had been financed out of current revenue, and the increase of such burdens on the taxpayer was naturally unwelcome.

After 1858 various circumstances brought home to the Government the imperative need for adopting a forward policy in regard to public works. Firstly, 'the occurrences of 1857', as Sir John Strachey tells us, 'gave such manifest proof of the enormous utility of improved communications that the systematic extension of roads in connexion with the main lines of railway, which were gradually coming into operation, was among the measures most earnestly taken up when the financial pressure caused by the Mutiny had subsided'.[2] Secondly, the expansion of commercial agriculture and the growth of plantations resulting from the rapid increase in the demand for Indian primary products in the growing industrial areas of Europe impressed the Government with the need for the extension of roads, railways and irrigation works.

[1] The Public Works Secretariat of the Government of India was constituted in 1855, in the same year, provincial departments were established in Bombay and Madras.

[2] *Finances and Public Works of India* (1882), p. 87.

The cotton-grower of Bombay and Berar, the jute-grower of Bengal and the tea-planter of Assam were badly in need of roads, and this demand forced its attention upon the Government

For the moment, however, the public works that interested the Government of India most were military barracks. As Trevelyan said, the mania took possession of the mind of administrators, and much money was devoted to the construction of barracks from 1865. Soon, however, the Government were roused from this preoccupation by the terrible famine of Bengal and Orissa in 1866-7. While the grain markets of Bengal were glutted with food-stuffs, a third of the population of the neighbouring region of Orissa died of starvation, because there was no means of transporting the grain. With a great effort, grain was brought by sea, but it took a long time to carry it from the coast to the stricken people in the interior [1] This terrible experience opened the eyes of the Government more than anything else to the urgent need for making more roads and railways In the Financial Statement for 1867-8, Massey said

> It any doubt has hitherto existed as to the expediency of engaging in great and extensive schemes of irrigation, that doubt has been completely dispelled by the lamentable events of the last year. There can be no deliberation in dealing with famine, and the issue forced upon the Government has been, not whether it shall engage in speculations which may yield an uncertain profit, but whether whole districts of the country shall be exposed to a periodical depopulation for want of those preventive measures which human power can command.[2]

§2 *The Introduction of a New Policy*

The urgent need for more irrigation works and railways was recognized, but the question that remained to be solved was as to what agency should finance them The Government had always been reluctant to borrow for such purposes and therefore sought private companies to undertake the work on a guarantee basis Private companies did come forward, and a few railways were constructed, but owing to the use of too costly materials and lack of experienced operatives, progress was slow, losses were great and a heavy burden fell on the public revenues.[3] Similarly, the two canal companies that took up the

[1] According to Pritchard, the delay in providing relief was largely due to the bureaucratic methods of the Governments in India There was a triangular duel between the Viceroy, the Governor of Bengal, and the Board of Revenue of Bengal. The Board of Revenue was asked for an explanation, and in their reply, they took their stand on the infallible gospel of *laissez-faire* ! See *Indian Administration*, vol I, pp 239-43

[2] *Legislative Council Proceedings*, 5 March 1867, p 143

[3] The Great Indian Peninsular Company began work in 1856 between Bombay and Thana. Next came the East Indian Railway, the Madras Railway, the Bombay, Baroda and Central India Railway and the South Indian Railway

Tungabhadra and Orissa canal projects expected quick returns and spent more money than was originally estimated, and so they were faced with financial ruin. Lord Canning was a firm believer in private enterprise, and it was he who entered into an agreement with the East India Irrigation Company; but its operations on the Mahanadi Delta were proceeding too slowly, and, owing to the fear that land revenue would be enhanced on the irrigated land, the landowners gave a cold reception to the new canals. Thus, the canal construction was put off, and in the meantime the rains failed and famine broke out in Orissa The Madras Irrigation Company had similar experiences with the Tungabhadra Canal. Both the Companies exhausted their funds and appealed to the Government for financial assistance or for further guarantees.

This raised an interesting controversy. In 1863 Sir Charles Wood (Secretary of State) invited opinions from Indian Governments about the soundness of entrusting irrigation to private enterprise Sir Henry Maine argued against private enterprise, on the ground that air, light and water must never become private property Sir John Lawrence (Viceroy) objected to it on the ground that it would be unwise to place the people of India at the mercy of a British joint-stock company for the supply of such an important article as water. The Secretary of State decided that these works should be carried out by the Government with surplus revenue, available balances, and, failing these, loans. Massey, in his Financial Statement for 1866-7, said that there was ample scope for both the Government and private companies After all, a trading company had ruled the whole country for over a century without creating dismay among the people However, the central factor to be taken into account was that the profit from irrigation would accrue only gradually Therefore only a Government could have the interest to wait, for in India, there was, especially in those days, a vital connexion between irrigation and public revenue Hence the anxiety of the Government to supply the ryot with water for his fields

It was accordingly decided to finance irrigation works by loans. Massey announced in April 1867 that in future the expenditure on irrigation works would be financed by loans, and that only the interest on the capital would be met from current revenues.[1] Then, there arose another difficulty. Two rival schools of engineers were engaged in a controversy about the technique of irrigation works. 'We have had differences of opinion,' said Massey, 'differences likely to arise between eminent engineers, as to the mode in which these works should be carried out. . . . Whilst that conflict was raging, it was difficult for an unskilled Government to take upon itself to pronounce an opinion.' Thus these learned discussions went on, while the people of Orissa died

[1] Financial Statement, 1867-8.

in large numbers. Pritchard naively remarks: 'It was as if two surgeons allowed a patient to die of hæmorrhage while they disputed about the kind of bandage that should be used to stop the bleeding'[1]

At last, the Viceroy made up his mind. The appointment of Colonel (afterwards Sir) Richard Strachey as Superintendent of Irrigation was a good beginning. He prepared a scheme of irrigation works, and the scheme soon received the approval of the Home Government. On 31 March 1868, the Viceroy placed before the Council a statement of the irrigation projects contemplated or started in the different provinces. He also pointed out that although the Government were anxious to carry out irrigation works, and had accepted the principle of financing them by borrowing, the utmost care was necessary that more designs should not be taken in hand than could be carried out with due regard to economy and to their resources which consisted of borrowed money. The Government also obtained the services of thirty new civil engineers from England. 'It was the peculiar duty of the Government of India', said Lord Lawrence, 'to see that all proper precautions are taken to prevent the hasty or wasteful application of borrowed money to new works; and at the same time to provide all needful funds for the prosecution of works of ascertained utility and satisfactory design'[2]

The new policy was pushed through, and its success was due chiefly to the enthusiasm of Richard Strachey[3]. The irrigation enterprises in Orissa and Kurnool were purchased by the Government at great cost, but the ventures directly undertaken by the Government were more successful. Up to 1880-1, the outlay on irrigation works from borrowed funds came to £12,500,000 (including the purchase of the Orissa Canal works). The productive works proved profitable to the state, and yielded a net return of 7 per cent. even in 1880.

§3. *Construction of Railways by the State*

In regard to railways also, a similar change of policy took place soon afterwards. The Mutiny demonstrated the importance of railway extension, but the operations of the companies

[1] op. cit., vol. I, p. 250. See also *Select Committee Report* on East India Finance (1873), pp. 149-50 (Trevelyan), 355-7 (Lord Lawrence). Also *Imperial Gazetteer*, vol. III, pp. 328-30. *Report of the Indian Irrigation Commission* (1900-3), Part I, pp. 27-8.

[2] Speech on 31 March 1868, *Legislative Council Proceedings*, p. 238.

[3] Major General Sir Richard Strachey, elder brother of Sir John Strachey, was an engineer and held many high posts, was Consulting Engineer, Railway Department (1858); Secretary, P.W.D. (1862), Superintendent of Irrigation (1866); Inspector-General of Railways, India Office (1871); President of the Indian Famine Commission (1878-9), acted as Finance Member and Military Member of the Supreme Council (1878-9); Retired and became Member of the India Council (1879-89), Member of the Herschell Committee on Currency (1892). He collaborated with his brother in the work, *Finances and Public Works of India*.

proceeded too slowly, and their business position was far from prosperous. As Sir William Denison, Governor of Madras, wrote, the guarantee system threw on the Government the greatest risks of railway construction with the least participation in profits,[1] and he suggested that the Government would benefit by directly undertaking it with borrowed money Laing, Finance Member, wrote that in the guarantee system all the advantages of private enterprise were neutralized. The Viceroy, Lord Canning, also agreed with these views The guarantee system thus became discredited, and opinion grew steadily that the state should directly construct railways, but the depressed condition of the Government finances stood in the way of immediate action. An attempt was made to invite companies, at least to construct feeder lines with no Government guarantee, but without much success Modification of the old guarantees was also tried, but all this was not calculated to push on railway construction at the pace required in the conditions of the time

In the case of railways, as of irrigation works, a forward step was taken by Lord Lawrence, when he was Viceroy. In a dispatch of 1867, he pointed out that it would be politically dangerous and economically embarrassing if large investments of private capital from abroad were made in India, and that direct railway construction and management by the State was desirable and feasible.[2] These views were supported by the members of his Council and by several expert engineers. It was also suggested that all the railways in India should be ultimately acquired by the Government. But the Secretary of State did not approve of the proposal. Sir Stafford Northcote was a firm believer in *laissez-faire*

In 1869 the Government of India's suggestions met with a better response from Whitehall, as in the meantime the Duke of Argyll had become Secretary of State In a Minute of 9 January 1869, Lord Lawrence crushingly refuted the arguments against railway construction by the State and established that under the guarantee system the whole profit went to the companies and the whole loss to the Government. A vigorous onslaught was made on the gospel of *laissez-faire* in this Minute 'It is an abuse of language to describe as an interference with private enterprise what is only a refusal to support private speculators and to guarantee them from all possible loss by the credit of the state, or to allege that the investment of capital by private persons is hindered by Government executing the works, when private persons refuse to do so at their own risk' There was not the slightest doubt that the Government, with their long-standing experience of public works in the country, could execute such works more cheaply

[1] Dispatch No 68 (Railway), 27 July 1861

[2] R Strachey seems to have drawn up the scheme. J. & R. Strachey, op. cit., p 91

than British companies which had little experience of Indian conditions.

It had been suggested by the Secretary of State that state activity should be confined to 'political' lines and that 'commercial' lines should be left to private enterprise. Lord Lawrence pointed out in reply that under such an arrangement the Government would take all unprofitable lines and leave all the profitable ones to private companies, and into the bargain the companies were guaranteed against loss. Naturally, state effort would be discredited under such conditions Therefore both 'political' and 'commercial' lines should be constructed by the same authority, so that the loss on the one might be made good by the profit on the other and the Government should take up both [1] Lord Mayo accepted the same policy, and the arguments were pressed in a Dispatch of 11 March 1869. The Secretary of State finally agreed that the time had arrived for a change of policy in this direction and advised the Government to raise money so far as possible in India and to keep a strict eye on economy and efficiency [2] A scheme was prepared at once for the construction of 15,000 miles of railway, comprising fifteen different lines [3]

§4. *The Progress of Public Works*

Lord Mayo took a great deal of interest in public works and, deviating from precedent, he took charge of the Public Works portfolio along with Foreign Affairs, chiefly because much of the increase of expenditure was in that department. As the member in charge, he made it a point to make an annual statement of the work of the department in the Council and in this he was far ahead of his time In 1870 he told the Council about 'the great advantage that would be derived, if members of Council in charge of the great spending departments, would lay before their colleagues a short abstract of the mode in which these great sums of money have been, and are to be, disposed of in order to give to the public an opportunity of knowing in detail how these sums are likely to be expended'.[4]

In 1868-9, the actual expenditure of the Public Works Department was largely in excess of the budget grant Richard Strachey pointed out that 'the excess must be attributed to a failure on the part of the controlling officers of the (Public Works) Department in the important duty of limiting the supply of funds to the disbursing officers, within the limits assigned by the grants regularly made by the Finance Department for the several heads of service under which the public works expenditure is divided'.

[1] J. & R. Strachey, op cit, pp. 406-7; N Sanyal, *Indian Railways*, p 75.
[2] Dispatch, 15 July 1869.
[3] *Legislative Council Proceedings* (1870), pp 249-53.
[4] *Legislative Council Proceedings* (1870), p. 233.

However, he also added in extenuation of this irregularity : ' When it is remembered among how many different provinces this outlay is divided, and further among how many disbursing officers and on how many separate works the sum has to be distributed, the amount of individual irregularity is much less than might at first sight be supposed.'[1]

In the year 1869-70 the total estimated expenditure of the Public Works Department was £8 millions of which £5·3 millions were spent on ' ordinary ' public works and £2·6 millions on ' extraordinary ' public works. They were distributed between the provinces as follows :

	£		£
Madras	835,000	N.-W. Provinces	865,000
Bombay	1,450,000	Punjab	866,000
Bengal .	1,360,000	Central Provinces . .	328,000

Owing to financial stringency, these grants had to be cut down in the middle of the year by about £800,000. To this must be added the amount given as interest on account of the Railway Companies under guarantee, i e £1,570,000. Even then, the outlay was large. Mayo estimated that the expenditure of the Government of India on public works was 17 per cent. of the total available net revenue of India, which was put at £28,900,000.[2]

Nearly all the railway lines till then constructed were on the broad gauge (5 ft. 6 in.).[3] As their financial results were not encouraging, Lord Mayo decided to economize by constructing the new lines on a metre gauge (3 ft. 6 in.). In his opinion the narrow gauge would meet the requirements of India for a long time to come. He told the Legislative Council in 1871

> If a gentleman of small means, who proposed to start upon a journey, purchased an elephant in order to carry a donkey-load of baggage, I am afraid that his friends would consider him to be possessed of that limited amount of intelligence which nature has bestowed upon the humbler animal.[4]

Mayo also suggested a change of policy in regard to irrigation, but he recognized that there was one great difference between railways and irrigation. The benefits from an irrigation work were

[1] *Legislative Council Proceedings* (1869), pp 340-1

[2] The total net revenue was calculated by deducting from the gross revenue all imperative charges like costs of collection, interest payments, pension charges, etc See *Legislative Council Proceedings* (1870), p 239

[3] The chief exception was the South Indian Railway, which was constructed on the narrow gauge

[4] *Legislative Council Proceedings* (1871), p 440 A difference of opinion arose on the question of gauge. W T. Thornton read a long paper on this subject before the Institution of Civil Engineers, London, and a hot discussion on it continued for seven evenings! See Thornton, *The Relative Advantages of the 5 ft 6 in Gauge and the Metre Gauge for the State Railways of India* (1873).

reaped by the people of a limited area, and therefore it was but fair to localize responsibility in regard to that. He said

> Everybody seems to desire irrigation, but many seem to desire that somebody else should pay for it. But as a matter of principle, the people in Madras should not pay for the enrichment of the Punjab, nor the people of Bengal for the irrigation of Sindh. Unless the Government are supported in organizing a system by which these works can be constructed without placing further serious charges upon imperial revenue, I greatly fear that many of these important operations may not be undertaken at all, or if they are undertaken they may run the risk of being stopped before they are finished [1]

His idea was that these works must be self-supporting 'We must establish', he said, 'a system of irrigation finance that will throw the main burden for the repayment of the capital and interest expended on these works upon the lands which benefit by them.' The cost and returns of each work must be known. 'We desire to separate as much as possible the finance of the reproductive operations from the ordinary finances of the Empire'

It was this conviction that impelled Lord Mayo's Government to pass the Northern India Canals and Drainage Bill in which it was sought to impose a compulsory water rate on the whole area supplied by an irrigation work It was supported by Richard Temple, John Strachey, and others who were firmly convinced of the justice of a compulsory rate, but several other influential persons disagreed on various grounds and in the end, although the bill was passed by the Council, it failed to receive the assent of the Secretary of State [2]

Another step taken by Lord Mayo for extending the facilities of irrigation was to place on a secure footing the traditional *takkavi* system. It was not sufficient to provide large irrigation works and the main channels. A large number of smaller channels were necessary to bring the water into the fields, and they were neglected in several places owing to want of capital This caused delay in irrigation works being properly utilized and made them ineffective in preventing famine It also put off indefinitely the day when the canals would give an adequate return on the capital invested. Accordingly a Land Improvements Bill was passed by the Council in 1871 The Madras Government objected to it on the ground that it would result in the 'reckless spending of millions'. It was also remarked that the central Government was trying to throw on private individuals the financial burden of works which it was the duty of the state to carry out. Lord Mayo, who was greatly instrumental in carrying out this legislation, referred to the success of the system of Government advances which was in operation in Ireland especially during the great

[1] Speech on 31 March 1871 *Legislative Council Proceedings*, p. 441.
[2] *Legislative Council Proceedings* (1871), pp. 659-63, 671-717.

famine there. 'The whole system', he said, 'worked like clockwork, with great advantage to the country and without the smallest risk of present or future loss to the state'[1]

In the same year an Act was also passed to enable municipalities and other local bodies to borrow from the Government for carrying out public works.[2] These three Acts were very helpful in the extension of local public works.

The borrowing programme of the Government from 1869 will be clear from the following table which gives the annual outlay on state railways and irrigation works, and the amounts raised by loan

Year	*Outlay on public works extraordinary*	*Amount raised by loan*
	£	£
1869-70	2,599,614	5,681,431
1870-1	1,167,810	3,626,235
1871-2	1,628,474	2,544,285
1872-3	2,184,569	2,063,922
1873-4	3,553,307	.
Total	11,133,774	13,915,873

Of the £13 millions thus borrowed, £1·5 million was repaid in 1872-3, and the balance was £12·4 millions. Of a total of £13 millions borrowed, £12 millions was raised in England. A Resolution of 1873 laid down an annual borrowing programme of £4½ millions, but for various reasons, this was later reduced to £3 millions

Besides the outlay on 'extraordinary' public works mentioned above, considerable sums were spent on 'ordinary' public works. Generally such expenditure was larger than the outlay on 'extraordinary' works mentioned above.

The return from capital works cannot accrue immediately. Nevertheless, owing to the nature of the works selected, the Government did not incur any loss. The canals paid 6 per cent. and the railways 5 per cent on the capital invested. To this must be added the indirect benefits, the increase of economic prosperity and the prevention of famine.

§5. *Military Barracks*

A large part of the public works carried out during the period consisted of buildings for the housing of European soldiers in India. A Royal Commission reported in 1863 on the very insanitary

[1] *Legislative Council Proceedings*, 28 September 1871, p. 647, also 1870, pp. 497-500 and 1871, pp 157, 613, 643-9.
[2] *Legislative Council Proceedings* (1871), pp. 4-8 and 611-3.

conditions in which the British soldiers in India had to live. Although Sir Charles Napier, when Commander-in-Chief, had carried out some improvements before the Mutiny, most of the barracks outside the Punjab were of one storey, imperfectly ventilated and with ill-arranged drainage. Some of them were temporarily put up to house the new European force of 20,000 additional men whom the Mutiny brought into the country. Lord Elgin was impressed by the Sanitary Commission's proposals, and in 1863 he decided to construct new barracks, and appointed Col. W. A. Crommelin in charge of the scheme [1] Lord Lawrence was even more convinced in the matter, and he decided, after some consultation, to put up two-storeyed buildings, as it was opined by various authorities that sleeping on the ground floor was often the cause of malaria. The total estimated cost was between 10 and 12 million pounds. Trevelyan wanted to spread the expenditure over five years and to raise part of the amount by loans, as it would be unfair to put the whole burden on current revenue. The Secretary of State therefore decided that 'when the surplus revenue and available balances prove insufficient to supply the requirements of the country, funds, by means of loans, shall be raised'.[2] Massey continued this policy and for two years a part of the funds was borrowed.[3] But subsequently doubts arose about the advisability of borrowing for unremunerative purposes, and it was decided, and the Secretary of State insisted, that the new military buildings should be financed from ordinary revenue. Thus barracks ceased to be extraordinary works, and year after year between one and two million pounds had to be spent on barracks, and this generally formed more than half the annual expenditure on 'ordinary' works [4] Further, the estimates were largely exceeded owing to the rising prices and wages. The cost originally estimated was £180 per soldier; the actual cost came to £250 per soldier [5] The result was that 'noble structures, providing for the married and unmarried soldier quarters equal to the best to be seen in any country, were rising up at Allahabad, at Lucknow, at Hyderabad, at Poona, at Bangalore, at Indore and at many other stations,'[6] but as a result there were frequent deficits.

Sir Charles Trevelyan, among others, severely criticized the policy of constructing barracks at such excessive cost. In his evidence before the Select Committee on East India Finance, he said :

Every now and then a fever, a sort of epidemic, takes possession of the public mind; the *idée*, the mania of an individual, becomes

[1] Resolution, 2 July 1863
[2] Financial Statement, 1865
[3] Financial Statement, 1867
[4] R Strachey's evidence before the Select Committee (1872), qq. 6855-9.
[5] W A. Crommelin's evidence before the Select Committee (1873), qq. 56-75.
[6] Temple's speech, see *Legislative Council Proceedings* (1869), p 109.

intensified when it seizes upon the public mind. Well, we had a fever of sanitation a few years ago, and one result of that is, that the people of India have been let in for an expenditure of £10,000,000 or £11,000,000, much the largest portion of which has been entirely thrown away, in new barracks [1]

Trevelyan quoted this as an example of Indian expenditure increasing abnormally owing to influences from Home. Grant Duff questioned the statement that the barracks were forced on India by the Secretary of State, but Trevelyan held his ground.

Another line of criticism was that the plan of the building was not suited to all parts of India. 'A standard plan' for barracks was accepted for the whole of India, but that was rather unsuitable Sir Bartle Frere wrote .

> Of all crotchets, this 'standard plan' crotchet is the most runaway of hobbies Of course the barracks can be built according to the 'standard', but they must be at best necessarily unsuitable in a ratio varying as the distance of the site where they are built, from the spot where the standard-plan-maker learnt his notions of comfort

Frere was therefore in favour of each province building barracks suited to its conditions and needs.

> Let us all try who can do best for our soldiers with the money you can give us Let us compare notes and learn by each other's success or failure and then in ten years' time, you may be able to tell how soldiers should be housed in each province. But the 'standard' set up by experience for one province will always differ more or less from the 'standard' of its neighbours.[2]

Sir Charles Trevelyan had apparently given his consent to two-storeyed buildings in 1864,[3] but in 1873 he vehemently criticized the whole policy He said

> The particular kind of buildings two or three storeys high presenting large surfaces of stone and brick and tile to the Indian sun was totally unsuited to the circumstances of the country, the true model is the Indian bungalow [4]

However, in 1870, it was resolved that upper storeys were only necessary in damp places. In the hill stations a much less expensive style of building was adopted The total expenditure on all military works in the period 1862-72 was £10,800,000 or an average of one million pounds a year

[1] *Select Committee Report* (1873), q 418

[2] Letter to Trevelyan, 24 November 1863, see J. Martineau, op cit., vol. I, p 430

[3] Minute, 19 March 1864

[4] *Select Committee Report* (1873), p. 23; but in 1864, he said: 'I agree with the Governor-General in preferring upper-storeyed barracks . . . I am entirely against the cottage system.' See Minute, 19 March 1864.

§6. *Public Works Administration*

When the policy of carrying out public works with borrowed funds was adopted in 1867-8, the works so undertaken began to be called 'Extraordinary Public Works', as they were not paid for out of the ordinary revenue of the year, and a separate account, showing capital, interest and working expenses was kept for each.[1] This practice, in some form, seems to have obtained since 1855, but Wilson did away with that distinction between 'ordinary' and 'extraordinary' expenditure, as both were drawn from current revenue.[2] With the resort to loans, the term 'extraordinary' did have a real significance. But 'extraordinary' public works comprised not only remunerative works, but others which were of doubtful remunerativeness like the Orissa irrigation works and the Calcutta and S E. Railway and even unproductive works like the military barracks. Such works were indeed needed for protection against famine or foreign invasion, but it was necessary to separate productive public works financed by loans from other works financed from the current revenue That part of the debt contracted for works regarded as remunerative was marked off from the ordinary or unproductive debt and was charged to the capital account. This new system was explained in the Public Works Resolution of July 1873

The introduction of the new public works policy necessitated changes in administrative machinery A central Secretariat had been in existence since 1854 to control irrigation, railways, civil and military buildings and communications Owing to the growing complexity of its activities, this Secretariat was later split up In 1863, an Inspector-General of Military Works was appointed; and in 1867, a similar Inspector-General was appointed for irrigation Richard Strachey was the first holder of the latter post. In 1866, three branches of the Public Works Secretariat were formed, each under an assistant secretary the Military Works Branch, the Civil Works Branch (including Irrigation) and Railways; and in 1870, the Public Works Account Department was recognized as a fourth branch of the Secretariat with a deputy secretary in charge. In the following decade the Military Works Branch was completely separated from the Public Works Department and became part and parcel of the army organization. Thus ended the connexion between the Public Works Department and military works.

[1] J & R. Strachey, op cit, pp 94-5. 'The truth is that these so-called extraordinary public works . . are only extraordinary on account of their magnitude and of the difficulty, at all times, of providing for them out of the ordinary revenues. In no other sense are they extraordinary'—John Strachey in the Legislative Council, 1868

[2] Sir Richard Temple, *Memorandum on Administrative Machinery connected with Finance* (1869).

The consulting engineers for railways were originally under the provincial Governments. With the construction of railways by the State, greater centralization in the hands of the Government of India became necessary, and it was moreover undesirable to have lines which traversed more than one province under the control of the various provincial Governments. The consulting engineers became officers of the Government of India, except in Madras, Bombay and Burma, where they remained secretaries for railway purposes to the local Governments. The Bengal Government continued to have some control over the Eastern Bengal Railway.

The growth of the Public Works Department may be seen from the following table showing the expenditure on public works in the five decennial years 1842-3, 1852-3, 1862-3, 1872-3 and 1882-3. It also brings out the total expenditure of those years and the proportion that public works expenditure bore to total expenditure. It must be noted that in the public works expenditure is included not only capital outlay by the Government but also working expenses of the state railways and canals, together with all charges for interest (namely, interest paid to guaranteed and subsidized companies, and interest debited in respect of capital outlay on productive works even when that capital was not actually borrowed but was provided out of revenue) Thus it represents all the financial transactions both on capital and on revenue account [1]

Year	*Expenditure on public works* £ *(millions)* (1)	*Total expenditure* £ *(millions)* (2)	*Proportion of* (1) *to* (2)
1842-3	·19	21·43	·96
1852-3	·63	25·27	2·53
1862-3	4·40	37·75	11·58
1872-3	12·52	56·87	21·96
1882-3	23·71	73·09	32·48

[1] *Moral and Material Progress* (1882-3), pp 263-4

CHAPTER IX

THE LAND REVENUE SYSTEM, 1858-1900

§1. *Modifications in the Tax System after 1858*

THE transfer of the Government of India to the Crown was followed by some changes in the revenue system of British India. Until 1858, land revenue formed about one-half of the total revenue of British India, and fiscal monopolies in opium and salt contributed about 30 per cent. Customs, excise and other indirect taxes brought in very little, and there was no tax on income. This antiquated revenue system, which pressed so heavily on land and so lightly on non-agricultural incomes, was modified after 1858, largely owing to the needs of the central Government. The first Finance Member, James Wilson, enunciated some new principles in his budget speech. 'All taxation', he said, 'must be based on the postulate of perfect equality and justice as between the different classes of the community.' He also laid down that 'all taxation must be in accordance with sound commercial and financial policy'.[1] Accordingly, he introduced a direct tax on income and reduced the burden of indirect taxes. The principle of free trade which he enunciated was subsequently put into operation by Strachey and Baring, who were even more ardent in its advocacy. But after 1914, the tide turned and customs duties were gradually increased, first in the interests of revenue and later with a view to protection.

Important changes were also made in the assessment and collection of various taxes. In this chapter and the next, the principal revenues of India during the period under survey will be dealt with.

§2. *Proposal for extending the Permanent Settlement*

A standing complaint against the Government throughout the nineteenth century was that the high land revenue assessments in the temporarily settled tracts were responsible for the frequent outbreak of famine in the country. Colonel Baird Smith, who was appointed by the Government to inquire into the famine of 1860, held this view, and he made a strong recommendation in favour of 'fixing for ever the public demand on the land'. He wrote:

It may be supposed that a great sacrifice of public revenue is involved in the concession of a perpetually fixed demand on the

[1] Budget speech, 19 February 1860

part of Government. It is to be observed, however, that, with a single exception to be noticed separately, the recent tendency of the measures of Government has shown a different conviction, and indicated a belief that its interests are best secured, not by general enhancement, but by general lightening of its demand on the land . . . The land would enjoy the benefit of such accumulations and as a necessary consequence of the increased prosperity of that class which must always be the very core of native society, and with the strength and the weakness of which the social fabric generally must always have the acutest sympathy, trade and commerce and general wealth would not only increase, but as years passed on the community must grow stronger and stronger and the risk of its collapsing under any such calamities as that we are now considering would gradually become less and less [1]

Of the provincial Governments, Bengal, of course, supported the proposal The North-Western Provinces favoured the introduction of the Permanent Settlement on the ground that it would save the expenditure on periodical re-settlements and would enhance the prosperity of the people by increasing the investments in land and by raising the value of landed property.[2] On the other hand, the Punjab Government pointed out that the public fisc would lose by making the Government demand permanent In most parts of the country, land values were increasing, and the rising prosperity of the landed classes justified a higher burden on land, but that would not be possible under a permanent settlement On the Supreme Council Frere and Laing supported the proposal. The Secretary of State (Sir Charles Wood) reviewed the whole question and resolved to sanction a permanent settlement wherever the existing settlement was equitable and fair, and where no considerable increase in the revenue was to be expected It was anticipated that these conditions were fulfilled in the greater part of northern India

Lord Lawrence, who became Viceroy in 1864, proceeded to carry out the intentions of the Secretary of State But he found great practical difficulties in the way In 1864-5, it was decided not to make the settlement permanent in the case of estates or villages where the cultivated land did not amount to four-fifths of the cultivable area Subsequently, the extension of irrigation works in northern India made it unprofitable for the Government to carry out a permanent settlement

In 1871 this question was further investigated by the Select Committee of the House of Commons on East India Finance Sir Charles Trevelyan and Lord Lawrence gave evidence strongly supporting the extension of the permanent settlement on the conditions prescribed by Sir Charles Wood Trevelyan cited the example of Bengal 'Bengal is the garden of India; it is a wonderful

[1] *Report*, 14 August 1861
[2] Minutes, 5 and 21 December 1861

country. Notwithstanding all the mistakes which were made, and the deteriorating, disqualifying circumstances, especially the fact that the persons with whom the settlement was made were not really the owners; notwithstanding all that, Bengal has flourished wonderfully under the Permanent Settlement.'[1] Lord Lawrence emphasized the unsettling effect of the thirty years' settlement and said that permanent settlement would encourage the investment of money in land and the gradual growth of a middle class.[2] On the other hand, Sir Robert Montgomery, Sir Charles Wingfield and others disapproved of the proposal to extend the permanent settlement, on the ground that it meant a large sacrifice of prospective revenue, especially in periods of rising prices.[3] This latter view appealed to the Select Committee at an early stage of its sittings, and it recommended (1871) that the proceedings in regard to permanent settlement should be suspended.

The controversy continued. The *coup de grâce* came in 1883, when the Secretary of State finally agreed to the abandonment of the policy.[4] This decision was largely influenced by the fall of the rupee after 1873. In 1885, however, a resolution was passed by Lord Ripon, in which it was affirmed that (1) the State should claim its share of the unearned increment on the value of land, (2) a rise in prices was to be regarded as one of the indications of this increment, and (3) revision settlements should be made less arbitrary and uncertain and less troublesome to the people by ordaining that enhancement of revenue should be made mainly after an increase in the value of land.

In 1900 R. C. Dutt carried on a vigorous propaganda for the extension of permanent settlement, and in this he got the support of several retired British officers with long experience in India. It was claimed by them that a permanent settlement would insure the country against famine, and would increase the happiness and prosperity of the people. The Indian National Congress also took it up and passed resolutions condemning the temporary settlements. But Lord Curzon gave a crushing blow to this agitation and vigorously exposed the fallacy of connecting temporary settlement with famine. His views are contained in the famous Resolution of 1902.

It is interesting to trace the change of opinion among Indian politicians and economists on the question of permanent settlement. In 1900, following the lead of R. C. Dutt, the Indian National Congress and other public bodies vehemently supported the permanent settlement, as the ideal land revenue system for India; but since then, nationalist opinion on this subject has undergone a revolutionary change. The more advanced politicians and economists have come to consider the permanent settlement

[1] *Select Committee Report*, qq. 1251-8.
[2] Ibid., qq. 4423-37.
[3] op. cit. (1871), qq. 1988-95; 923-4.
[4] Dispatch No. 24, 28 March 1883.

as an inequitable contract and many of them want to overthrow it.[1] Nor is this the only subject in which such a drastic change has taken place in nationalist opinion.

§3. *Land Settlements in the Central Provinces and Oudh*

Soon after the Mutiny, land settlements took place in the newly created Central Provinces and in Oudh, which came under British rule in 1856 Subsequently, Assam (1874) and Burma (1870-1904) also came under settlement. The land system of the Central Provinces was chiefly based on that of the North-Western Provinces (with which it was previously connected), but shows some peculiar features The resemblance is seen in the system of survey and in the principle of assessment. The position of the malguzars was different from that of the zamindars of Bengal and the village communities in northern India Some of the malguzars were zamindars owning large estates preserved from partition by the custom of primogeniture; others were village headmen, but the great majority of them were individual landlords whose rights against the cultivators were regulated by law.[2] The settlement was made for 20 years, and the malguzars were given the right of selling or mortgaging their lands The Government demand was limited to one-half of the rental of estates. Subordinate tenures were recognized The position of the actual cultivators was safeguarded by the Tenancy Act of 1883, which recognized three classes of tenants · absolute occupancy tenants, occupancy tenants and ordinary tenants Provisions were also made for restricting the alienation of home farm lands by proprietors and for prohibiting transfer of rights by occupancy and ordinary tenants This placed the land revenue system of the Central Provinces on a proper basis

Oudh was annexed in 1856, and settlement operations began in 1860 The land revenue was settled with talukdars, who were local chiefs in possession of large estates and of great popular influence. At first, the idea was to regard the talukdars as usurpers and to make settlements with the subordinate village proprietors. This made Oudh one of the storm centres of the Mutiny. In 1858 Lord Canning issued a proclamation reviving and perpetuating the old talukdari system. He said · 'Be assured that so long as each one of you is a loyal and faithful subject and a just master, his rights and dignity as a talukdar will be upheld by me and by every representative of your Queen and that no man shall disturb them.'[3] The insurgents who made their

[1] This change of view is well reflected in K T. Shah's *Sixty Years of Indian Finance*, pp 225-9, where he attacks the Permanent Settlement However, as late as 1919, a member of the Madras Legislative Council brought forward a resolution for the introduction of permanent settlement.

[2] *Moral and Material Progress* (1882-3), p 137.

[3] I T. Pritchard, op. cit , vol. I, p 34

submission received back their old estates; those who had proved loyal throughout received large additional lands assessed in perpetuity at a low rental. The adoption of the custom of primogeniture and the conferment of the freedom to devise by will also strengthened their position. In 1900 the Oudh Settled Estates Act was passed with a view to regulating family settlements and preventing the decay and disintegration of ancient estates. The rights of under-proprietors were also recognized The Proclamation said 'As the Government has been generous to you, so do you be generous to those who hold under you, down to the humblest tiller of the soil Aid them by advances of money and other indulgences to increase the productiveness of the land, and set them an example of order and obedience to your rulers' A Tenancy Act was passed in 1886, but it may be mentioned that in Oudh the occupancy right cannot be acquired by prescription

§4. *The Reorganization of the Madras System*

In the older provinces except Madras hardly any important change took place in the revenue system after 1858 The methods of revenue survey and settlement were improved from time to time, and unsuccessful attempts were made to introduce a permanent settlement.

The two chief types of settlement in Madras were the zamindari and the ryotwari The details of the zamindari system were fixed long before and underwent little change during the period under survey The ryotwari tenure underwent large changes.

Munro's settlement was defective, as already shown The rates fixed by him were too high, and a large share of the estimated net produce was taken by the Government Munro also introduced money payments, but as this came at a time when prices were falling and money was becoming scarce, it only added to the burden of the ryots. Munro's survey was also defective The instruments used were crude and the subordinates employed were untrained · it is said that by the time he had completed his survey a revision was necessary. All this called for a survey and settlement on a more scientific basis

The correspondence relating to the new survey lasted for about ten years. The Madras Survey Department had been in existence since 1800 for trigonometrical work, but in 1858, under Colonel Priestley, it took up revenue survey work also. In 1903 it came under the Board of Revenue. The chief characteristics of the new scheme were a cadastral survey combined with a perfect topographical survey on a trigonometrical basis and the laying of permanent boundary marks. It was based on the English method and yielded correct results. In order to avoid resurveys, the Land Records Department was organized for the purpose of maintaining

boundary marks and indicating changes of ownership on the field map.

The basis of assessment was not finally settled in 1855. At first the idea was to demand 25 per cent. of the gross produce; but in 1864 it was decided that the net produce, i e the value of the crop after deducting cultivation expenses, should be the basis of assessment and that the Government demand should be limited to 50 per cent. of the net value of the crop. The period of settlement was fixed at 30 years. As the ryot had the 'freedom of cultivation', which meant taking up or relinquishing lands during the year, an annual 'settling up' or *jamabandi* became necessary in order to ascertain the actual revenue due from him.

The new revenue settlement comprised the following operations:

(1) A careful inquiry into the agricultural conditions of the district, conducted by the settlement officer himself, involving a study of the rainfall, the liability to drought, recent fiscal history, the state of irrigation, communications and markets, and so forth.

(2) Classification of soils carried out by a subordinate establishment

(3) Determination of gross produce and its value in cash on the basis of a commutation price fixed with reference to the average market price during the previous 20 non-famine years.

(4) Assessment of revenue rates

(5) Preparation of a register showing survey number, area, soil, assessment, etc., of every field and the issuing of *pattas* to the ryots [1]

Settlements on the above lines were begun in 1861 and district after district was taken up As each district took several years to settle, and as revision was due every 30 years, settlement operations became a normal and continuous Government activity. The Settlement Department was placed in charge of a Director, who in 1892 became also the head of the Agricultural Department. From 1889 he had been a member of the Board of Revenue There was much opposition from the beginning to the periodical enhancements of revenue In 1882 Lord Ripon laid down the rule that in districts which had been surveyed and settled, there should be no enhancement of the land revenue except on the clear ground of an increase in prices This principle was embodied in the Madras Settlement Manual of 1887 Accordingly, grain values were to be unalterable; but the assessment would be revised every 30 years, according to the money value of the standard crop Nor was the classification of soils revised, so long as it was found equitable In practice, however, the assessment was heavy in some parts and light in others.

[1] *Moral and Material Progress* (1882-3), p. 142

The question whether the water rate should be compulsory or optional came up for discussion at an early date. Lord Lawrence, the Duke of Argyll and others were firmly convinced that a compulsory water rate would cause serious trouble. 'I would almost not make a canal at all, however much I desired to do so, rather than make it obligatory on them (the cultivators) to take water,' said Lord Lawrence to the Select Committee on East India Finance.[1] Several others, including Strachey, thought, on the other hand, that the compulsory levy of the water rate was justified. In the result, the water rate was made optional in Bengal, but was declared compulsory in most parts of Madras in 1900. The water tax was consolidated with the land tax, and the ryot had to pay it whether he took the water or not. This arrangement in Madras was chiefly due to the fact that while in northern India, water was conducted along water-courses bordering the fields, in Madras water flowed from field to field, and consequently it could not be excluded from a field surrounded by irrigated fields.[2]

A tenth of the presidency was under *inam* tenure. *Inams* are grants of the State's interest in land, made in perpetuity or for a period, ordinarily in the form of an assignment of the land revenue derivable from a given area. Such grants had been made lavishly in the eighteenth century, but after British occupation efforts were made to restrict them and this led to some disaffection in 1847. In 1858 a special Commission was appointed to inquire into the whole matter and as a result a large number of *inams* were enfranchised and assessed at a quit-rent in perpetuity.[3]

§5. *Changes in the Bombay Land Revenue System*

In Bombay, a system of survey and settlement was introduced as early as 1835 by Goldsmid and Wingate, and it was legalized by an Act of 1865. A single department, under a Commissioner, controlled both the survey and settlement operations. The Government of Bombay was opposed to a permanent settlement, although it agreed that, reckoned in produce, the settlement must be permanent. The rise of prices, in its opinion, necessitated periodical revision of assessments.

The revision settlements in Bombay began in 1866 and created some controversy. The abnormal demand for cotton in the early 'sixties produced a boom in prices, and a prosperity, more apparent than real, set in. The high prices formed the basis

[1] *Report* (1873), qq 4455-60.

[2] See *Moral and Material Progress* (1901-2), p 159. R C Dutt thought that the compulsory rate in Madras was due to the autocratic attitude of the Madras Government and the lack of influential educated public opinion in the ryotwari tracts: see *India in the Victorian Age*, p 498. Dutt forgot that the Tanjore and Godavari Districts were among the most advanced in the country.

[3] Enfranchising an *inam* meant its conversion to private property by giving up the reversionary right of the Crown.

for the revision of assessments, and naturally the new rates were pitched high In some cases, the new assessments were between 50 and 60 per cent. higher than the old. But the inevitable slump came, with all the usual undesirable consequences. Cultivators found themselves unable to pay the land revenue and to repay the large debts they had contracted. Agrarian disturbances followed, with rioting and violence of various kinds. Dadabhai Naoroji, giving evidence before the Select Committee of the House of Commons in 1873, attacked the revenue enhancement and remarked that a rise of prices due to exceptional and temporary causes need not have been taken into account for revenue revision.[1] To inquire into the causes of the Deccan riots, a Commission was appointed in 1875, consisting of two Bombay officers and a northern India civilian, Auckland Colvin (afterwards Lieut.-Governor of the North-Western Provinces). The Commission dealt chiefly with the question of indebtedness, and devised measures for settling the exorbitant demands of moneylenders. A memorandum by Colvin discussed the weaknesses of the revised settlements [2] The Government took steps to restrain the moneylenders, and with this object in view the Deccan Agriculturists' Relief Act was passed in 1879 In the same year, a Land Revenue Act was also passed, which placed the ryots of the province on a secure footing. But no substantial change was made in the principles of assessment The high rates of revenue were maintained, and in the opinion of Sir William Hunter, 'the fundamental difficulty of bringing relief to the Deccan peasantry is that the Government assessment does not leave enough food to the cultivator to support himself and his family throughout the year'.

The revision settlement continued. By 1899, only half the villages in the presidency had been settled The assessments continued at their high pitch, till the end of the century, and led to a smouldering discontent which expressed itself in many ways.

§6. *Incidence of Land Revenue*

The growth of land revenue from 1861 may be seen from the following table in which five-year averages of land revenue in British India are given [3]

Year	£
1861-5	13,287,000
1866-70	13,327,000
1871-5	13,977,000
1876-80	14,076,000

[1] *Select Committee Report* (1873), qq. 6507-34
[2] Dated 8 November 1875
[3] *Moral and Material Progress* (1901-2), p. 161

Year	£
1881-5	14,748,000
1885-90	15,622,000
1891-5	17,005,000
1895-1900	17,973,000
1900-1	18,252,000
1901-2	19,101,415

Thus the land revenue increased by £6 millions in 40 years. During the same period, the area under cultivation expanded largely; population increased by 75 per cent., the foreign trade of the country quintupled itself, and the large rise of prices lightened the real burden of taxation.

In the permanently settled areas, the fall of incidence has been great. When the settlement was made in Bengal, the assessment fixed was as high as ten-elevenths of the estimated rental, but owing to the increase in the area under cultivation and the letting value of land, the assessments subsequently fell to a fourth or fifth of the gross rental.

In the temporarily settled tracts, the Government's settlement policy has been marked by a progressive moderation. This is most conspicuous in the case of the North-Western Provinces (now the United Provinces). In 1812, 90 per cent. of the net assets was taken as land revenue in the province of Agra, but by 1855 it was reduced to 50 per cent. The 'Saharanpur Rules' of that year limited the Government demand to half the net assets. There has been a further fall subsequently, due partly to the decision to leave untaxed prospective assets and improvements made by the landlord. Allowances were also made for the vicissitudes of the seasons and for the precariousness of cultivation.[1] When Oudh was resettled, the Government demand was pushed down to 47 per cent. of the net assets. In the temporarily settled tracts of Orissa, the proportion of the Government demand to net assets fell from 83·3 per cent. in 1822 to 54 per cent. in 1900, and the fall continued.[2] In Madras, the adoption of the half-net rule reduced the incidence substantially, and assessments fell by 25 per cent. between 1860 and 1900. In 1851-5, the average incidence was Rs. 2·44 per occupied acre, but by 1898, it had fallen to Rs. 1·87.[3] The same is largely true of Bombay also.

It is extremely difficult to calculate the incidence of land revenue accurately. Estimates have been made at various times, but they are not comparable owing to the diversity of the data. For instance, in the table given below, the total acreage given in 1878 was the cultivated area, while the figure for 1900 was the net cropped area. Further, the inclusion in 1900 of water charges

[1] *Report of the Famine Commission* (1880), p. 90.
[2] Resolution on the Land Revenue Policy of the Indian Government (1902), pp. 13-15.
[3] Resolution of the Board of Revenue, Madras, 6 December 1900.

in the case of Madras and Sind has greatly exaggerated the incidence for those two provinces These facts must be kept in mind while drawing conclusions from the following table

INCIDENCE OF LAND REVENUE PER ACRE OF CULTIVATED LAND IN 1878 AND 1900[1]

Province	1878-9				1900-1			
	Cultivated area (000 omitted)	Incidence			Net cropped area (000 omitted)	Incidence		
		Rs	a	p		Rs	a	p
Madras	28,500	1	10	5	24,510	2	4	11
Bombay (excluding Sind)	27,000	1	10	5	21,001	1	6	5
Bengal	54,000	1	3	2	51,608	0	10	8
N.-W. Provinces and Oudh	36,650	2	6	5	34,580	2	0	1½
Punjab ..	21,000	1	5	7	24,521	1	1	5
Sind ..					3,729	2	8	1
Central Provinces	14,500	0	9	7	15,251	0	8	8
Berar	6,500	1	3	2	6,816	1	2	9
Assam					4,308	2	9	0
Burma .					11,453	2	0	3

[1] Drawn up from the *Famine Commission Report* (1880) Part II, p 112, *Famine Commission Report* (1901), p 87, and *Moral and Material Progress* (1901-2), pp 165, 200

CHAPTER X

OTHER REVENUES, 1860-1900

§1 *The Salt Tax*

THE large variations in the mode of taxing salt in the different provinces have already been explained in Chapter VI In Madras salt was a Government monopoly, in Bombay there was an excise; in Lower Bengal the tax was included in the selling price of rock-salt, which was cut or mined and prepared by the Government agency. In other provinces it was collected when the salt of Rajputana entered British territory The rate of the salt duty also varied from province to province While Madras and Bombay paid only a duty of about Re 1-4 per maund in 1860, Bengal paid Rs. 3-4, and the North-Western Provinces Rs. 3 So long as antiquated transport methods continued, these differences in rates did not cause inconvenience, but when railway communications were established, preventive measures on a large scale became necessary. To prevent untaxed Rajputana salt and other lightly-taxed salt coming into northern India, a long customs line extending for nearly 2,500 miles from Torbela near Attock in the Punjab to the Sambalpur district of Bengal was maintained Grant Duff compared it to the Great Wall of China A similar line 280 miles in length was maintained in the Bombay Presidency from Dohad to the Rann of Cutch These customs lines were made up of hedges of thorny trees and bushes over a great way and stones and ditches in other places An army of 13,000 officers and men divided into 110 patrols with separate beats, each presided over by a patrol, guarded these lines This cordon hampered the free movement of trade and obstructed communications But so long as the different rates of duty existed, the customs lines had to be kept up.

Lord Mayo realized the anomalies of the salt tax and initiated steps for its equalization all over India In 1869 the duties in Madras and Bombay were raised In 1870 the Government of India acquired a lease of the Sambhar lake and by 1874 a part of the line was abandoned The remaining salt sources of Rajputana were also acquired later and treaties were made with several Indian states for regulating the conditions of sale. This paved the way for uniformity. In 1877, taking advantage of the needs of the Government, the duty in Madras and Bombay was raised to Rs 2-8 while in Lower Bengal the duty was lowered. Later, in 1879, nearly the whole of the customs line was abandoned. 'With it disappeared one of the greatest opprobria

of British rule in India,' wrote Sir John Strachey.[1] By 1882 the duty was further lowered to Rs. 2 per maund, but it had again to be raised by 8 annas, and this was maintained till 1902

The consumption of salt has always been highest in the Madras Presidency, and the increased duties did not make any difference in this matter It was clear that the demand for salt was rather inelastic [2]

The system of Government monopoly continued in Madras in spite of Plowden's criticism Down to 1877 the manufacture of salt except on Government account was prohibited everywhere. Local producers entered into contracts with the Government for the supply of salt at the Government store at rates varying from place to place [3] In 1870 an attempt was made to assimilate the salt duty in Madras with that of Bombay In 1871, giving evidence before the Select Committee of the House of Commons, Sir Thomas Pycroft pointed out that, although the advantages of an excise over a monopoly were considerable, there was no saving in the cost of collection [4] In 1876 the Madras Salt Commission recommended that the substitution of an excise for the monopoly must be gradual and that free competition should not become complete until there were enough manufacturers to compete There was also the difficulty of disposing of the existing salt works The majority view favoured excise but Venkaswami Rao, a member of the Commission, opposed it [5]

In 1877 the excise system was first introduced in South Kanara and was subsequently extended to the east coast. Under the new system licences were granted to private persons who conducted all the operations of manufacture under strict supervision Their stores were also guarded in the same way as the Government stores The duty had to be paid before the salt was removed beyond the line of guards [6] By 1886 the excise system had made headway in Madras However, a few Government factories were also maintained in order to prevent manufacturers from combining to control prices After 1895 the Government monopoly system found greater favour, and towards the close of the century 22 out of 67 factories belonged to the Government [7]

Nor was the Government monopoly abandoned elsewhere in India. In 1902 half the salt in the country was produced by direct Government agency, and the rest under the excise system. The principal northern sources except the Kohat mines, were worked by the Government In Bombay, Baragara salt was manufactured by the Government, but sea salt was made by private persons.

[1] *Finances and Public Works*, p 229
[2] ibid , pp 232-3
[3] *Report* (1871), qq 3680-703
[4] ibid , qq. 4171-3
[5] *Report* (1876), pp 223-4
[6] *Moral and Material Progress* (1882-3), p 160.
[7] *Imperial Gazetteer*, vol. IV, p 249.

After India came under the Crown, considerable difference of opinion arose among successive Finance Members about the equity of the salt tax Samuel Laing (1861) held that a light duty on salt was reasonable Trevelyan who, as Governor of Madras in 1859, opposed the salt tax on the ground that it was of the nature of a poll-tax,[1] subsequently changed his mind. In 1865, as Finance Member, he said ·

No tax can be collected more cheaply or with less annoyance to the people than the salt tax In India where the interference of subordinate fiscal agents is more than usually disliked, this is one of the greatest recommendations of a tax The really productive taxes are those which are paid by the body of the people Clearly, they ought to pay their fair share, for they profit even more than the rich by the advantages of good government A rich man can generally protect himself, but if the interests of the poor man are not cared for by the state, he is ground down by the rich and is rarely able to rise in the social scale [2]

W. N Massey was reluctant to increase the salt tax on the ground that it was in effect a poll-tax on the masses and that an increase of duty would diminish consumption In 1869 the Duke of Argyll, Secretary of State, justified the salt tax on the ground that it was collected from the masses Such differences of opinion have continued to this day

The administration of the salt revenue still involved the maintenance of factories for the manufacture of salt and of a preventive establishment for guarding against illicit traffic The Northern India Salt Department was under the direct control of the Government of India, but the provincial Governments of Bombay, Madras and Bengal had their own separate departments [3]

§2. *Opium*

In 1858 the Government received about Rs 5 crores from their opium monopoly, but opinion differed about the future prospects of that revenue Wilson considered it precarious, but Laing and Trevelyan were more optimistic Trevelyan thought that there was as little likelihood of the Chinese going without opium as of Englishmen giving up the use of spirits Nor was there any chance of the Chinese growing their opium at home [4] Subsequent experience showed that this optimism was not justified

No doubt the opium revenue was unsteady by its very nature, but the vacillating policy of the Government aggravated the difficulty. The price of opium largely depended upon the quantity, which varied with the season and the area under cultivation. The vicissitudes of the seasons were great, and therefore it was

[1] Minute, 10 June 1859 (Parliamentary Paper C 339 of 1860)
[2] Financial Statement, 1865-6.
[3] *Imperial Gazetteer,* vol IV , p 250
[4] Financial Statement, 1863-4

impossible to estimate the actual produce beforehand This led to speculation and often deprived the Government of the full advantages of a monopoly, and caused great fluctuations in total revenue. As Sir Cecil Beadon, Lieut.-Governor of Bengal, wrote in 1867: 'It also deranges the condition of agriculture over a wide extent of country and discourages the ryots from engaging in a cultivation which, though more profitable than that of ordinary crops, they may at any time be required to abandon'[1] He pointed out that the quantity of opium brought to the market ought not to vary much from year to year and that a permanent reserve ought to be maintained in order to make up for the deficiencies of bad seasons He also showed that the quantity sold ought to be determined by the price obtained, and that the price to be aimed at was one that should neither provoke the competition of foreign countries in the Chinese market, nor stimulate the production of opium in China itself This proposal was accepted by the Government of India, and an opium reserve was gradually built up, and by 1879, the Government were able to announce that a certain fixed amount would be brought for sale every month

From this time the question of opium attracted a great deal of attention in England The Society for the Suppression of the Opium Trade carried on an extensive propaganda[2] The Government of India were concerned about the unsteadiness of the opium revenue In 1852, opium was responsible for 18 per cent of the total revenue of India, but by 1892 the proportion fell to 8·9 per cent

As a result of the discussions in Parliament and of a resolution passed in the House of Commons in 1893, a Royal Commission was appointed in that year to inquire into the consumption of opium and the possibility of prohibiting or restricting its production and sale The Commission reported in 1895 and did not recommend the prohibition of the production or sale of opium in India for non-medical purposes, nor did it find any evidence of extensive moral or physical degradation from its use in India 'The temperate use of opium in India', said the Commissioners, 'should be viewed in the same light as the temperate use of alcohol in England' A great loss of revenue would result if any attempt were made to prohibit its production or sale As regards the export of Indian opium to China, there was no declared wish on the part of the Chinese Government to prohibit the traffic and no action was necessary on the part of India[3] China was already producing a good part of the opium consumed there, and Indian opium was rather a luxury, being used only by the richer classes

The opium imports into China had to pay an import duty and certain transit duties called *lekin*, which were levied at varying

[1] Quoted by Strachey, op cit, p 246
[2] *Opium Commission Report*, pp 163-5
[3] *Moral and Material Progress* (1901-2), pp. 174-5.

rates at the different places. The Chinese Government had long been meditating a change in this matter, and as a result of the Chiefoo Convention of 1876, these taxes were replaced by a single import duty charged at the port.

Besides the export duty there was also an excise on the opium consumed in India. The cultivation of poppy was forbidden in British India except in the area of the Bengal monopoly and a few minor tracts. The Bengal factories supplied the needs of northern India and the Central Provinces, while Malwa opium was consumed in Bombay, Madras and the Punjab. In the areas where Bengal opium was consumed, it was sold at Government treasuries to licensed vendors and druggists at a fixed price. In Bombay opium was sent from the central warehouse to district depots and from them it was issued to licensed vendors. In Madras the supply came from the Bombay warehouse and was sold to wholesale vendors. The licence for retail sale was annually put up to auction. The excise revenue from opium was composed of duty and vend fees. The rate of duty varied from province to province. In 1902, the average taxation under both heads came to Rs 34-12 per seer in Assam and to Rs 11-8 in the Punjab. The total revenue from the opium excise rose from Rs 14 lakhs in 1856 to about Rs 1 crore in 1900.[1] The total net revenue from opium declined towards the close of the century. The average net revenue between 1860 and 1890 was Rs 6 crores. But in the last decade of the century the average fell to Rs $4\frac{3}{4}$ crores.

§3 *Excise on Spirits and Drugs*

The system of farming excise revenue in the Company's days has already been dealt with. After 1858 this was gradually modified and the aim before the Government was definitely enunciated, as a maximum of revenue with a minimum of consumption. Accordingly taxation on liquors and drugs was increased, the traffic in them was carefully regulated, and the places of their sale were made as few as possible. In 1901 there was only one liquor shop in India for about 2,400 of the population, whilst in England there was one for every 240 people.

The spirituous liquors on which an excise was levied came under three categories: (1) imported spirits, (2) country-made spirits made in India on European principles, and (3) 'country spirits', i.e. made in Indian fashion. On imported spirits, a customs duty was levied. A small excise revenue was also raised on them by means of a licence fee for sale. On the 'country-made foreign spirits', an excise duty corresponding to the import duty was levied.

The systems of levying excise revenue on country spirits varied

[1] *Imperial Gazetteer*, vol IV, pp 246-7, *Moral and Material Progress* (1901-2), pp 171-6.

from province to province, but they came roughly under two categories: (1) the central distillery system, adopted from England, in which a fixed duty was levied on each gallon of spirit manufactured and issued for sale, and (2) the outstill system in which the tax is levied in the gross by the system of auction.[1] In Assam and parts of Bengal, the Central Provinces and Lower Burma, the outstill system obtained and the revenue was raised by the auction sale of licences to keep stills for the manufacture and sale of country spirits, in other parts, there were central distilleries maintained by the Government, at which still-head duties were levied in addition to fees for manufacture and sale, and the right to sell retail was generally separated from the manufacturing right. It was recognized from the first that under the outstill system, the central aim of the Government's excise policy would not be fulfilled, for the monopolist's object, viz. to maximize net income, might be best secured by a large sale at a low price rather than by a small sale at a high price. That necessarily led to an increase of consumption. Therefore it became the policy of the Government from 1890 to extend the central distillery system.

The central distillery system was not the same in all the provinces. In northern India, the Government maintained central distilleries and allowed licensed distillers to set up stills and manufacture spirits. Elsewhere they were under private management.

Besides spirits, toddy or *tari* was also subject to excise. In Madras and Bombay, the duty was raised by means of a tree-tax supplemented by a licence fee for retail sale. A similar tax was introduced in some parts of Bengal and the United Provinces, but was later discontinued in Bengal. In Madras the tree-tax brought in one-half of the total excise revenue. In Bengal and Burma a kind of beer was brewed from rice and was consumed by the aboriginal tribes.

The drugs on which excise was raised were *ganja*, consisting of the dried flowering tops of the hemp plant, *charas* (the resinous matter with which the tops are coated) and *bhang* (the dried leaves of the plant). They were collectively called the hemp drugs. The excise on these drugs formed the subject of a Commission, and as a result of it an Act of 1896 laid down the following principles.

In regard to *ganja* and *charas* the cultivation of the plant should be restricted as much as possible and a direct quantitative duty should be levied on the drugs on issue from the warehouse to the province of consumption. As regards *bhang*, the cultivation of hemp for its production should be prohibited or taxed, the collection of the drug from wild plants permitted only under licence, and a moderate quantitative duty levied in addition to vend fees.

[1] C. N. Vakil, op. cit., pp. 468-9.

These principles were adopted in all the provinces by 1901, but certain local variations continued.[1]

The nature of the revenue under excise and its incidence varied from province to province In Bengal nearly 50 per cent of the excise revenue came from country spirits In 1859 the central distillery system was introduced, but from 1871 outstills increased in number and importance The result was an increase of drinking.[2] The Bengal Excise Commission of 1883 pointed out the evils of the outstill system and recommended the advantages of the central distillery. Accordingly the central distillery system was again adopted The duties were nearly doubled between 1870 and 1889.

In Madras the Regulation of 1808 as amended by a regulation of 1820 continued to be in force till 1864, when a new Act was passed, granting power to levy an excise duty on the quantity of liquor manufactured instead of an annual payment and to suppress the illicit tapping and sale of toddy In 1884 a committee inquired into the whole system, and its recommendations guided the policy from that time With a view to realizing the maximum revenue from the minimum consumption, the tax on country spirit was increased and in the case of toddy a tree-tax system was introduced under which no palm tree could be tapped without a licence and without a distinguishing mark on it Tentatively introduced in 1887, this was subsequently extended over nearly the whole presidency, and it greatly increased the revenue

In Bombay the system in vogue was a combination of the two systems above mentioned; it was called the 'guaranteed minimum'. The contractors who took up the rights of manufacture and sale were required to guarantee to the Government a minimum amount of duty fixed by an estimate of the normal consumption in the area concerned. Before that was introduced, farming was the rule and each shop was let by auction The system was thoroughly changed in 1878, when a central distillery was established and duties were raised The rates of duty varied in the different districts of the presidency

In the North-Western Provinces, the Government for a time resisted the introduction of the central distillery system, although it was authorized by an Act of 1856 The system then in force was the licensing of single stills and of shops on payment of fees and the farming of manufacture and sale usually for one year In 1863, however, the Government introduced the central distillery system But this was not followed all over the province Oudh, however, fully adopted it

Thus there was no uniform policy in regard to excise revenue in British India In 1889 the excise policy of India was

[1] *Moral and Material Progress* (1901), p 178
[2] *Report of the Bengal Excise Commission* (1884), pp 107-8.

condemned in the House of Commons on the ground that it had increased drinking in the country The Government of India refuted the charge and pointed out that prohibition was impossible and local option impracticable The principles which were expedient in its view were (1) that the tax on spirituous liquors should be high; (2) that the traffic in liquor should be regulated for police purposes; (3) that the number of liquor shops should be strictly limited, and (4) that efforts should be made to ascertain the local public sentiment [1]

The net revenue under excise rose steadily throughout the period under survey In 1861 it was Rs 1·6 crores, by 1880 it rose to Rs. 3 crores and by 1890 to Rs 4 9 crores In 1901 it stood at Rs. 5·8 crores Thus the revenue quadrupled between 1861 and 1901.

§4 *Other Revenues*

The three other main heads of revenue were customs duties, income-tax and provincial rates As these taxes varied from year to year and formed more or less a part of the annual adjustments of revenue, it seems more appropriate to deal with them in the following chapters on financial policy We shall deal here only with certain minor items

Stamp revenue was derived from two sources, litigation and commercial transactions. Under the Court Fees Act of 1870 fees were imposed on plaints, petitions and other documents filed before civil, criminal or revenue courts, and under the Stamp Act all conveyances, cheques, bills of exchange, receipts and other documents required stamps which in some cases were graduated according to value The law regarding stamps was consolidated in 1899 Stamp revenue also steadily increased during the period under review. The net revenue in 1861 was Rs 1·5 crores, but in 1901 it was Rs 5 crores This was largely due to the increase in commercial transactions and in the work of the courts.

The State forests were an increasing source of revenue in British India The revenue was derived from the sale of timber and other produce from the forests In 1900 the gross revenue from forests came to Rs. 1·9 crores, but as the expenditure on forests came to Rs. 1 crore the net revenue was only Rs. 90 lakhs

Tributes and contributions from the Indian States received annually by the Government of India came to Rs 85 lakhs in 1900

[1] Dispatch, 4 February 1890

PART III

THE BEGINNINGS OF PROVINCIAL FINANCE
1860-72

CHAPTER XI

THE GROWTH OF FINANCIAL CENTRALIZATION

§1 *Increase of Interference from the Centre*

AFTER 1858 the financial authority of the Government of India over the provinces became complete. Even before that date, the Government of India had the authority, though they lacked the means of enforcing it, but after 1858 such means became more potent and abundant. Firstly, the increase of transport facilities and the regular functioning of the post and telegraph enabled the Secretariat at Calcutta to supervise the financial administration of the outlying provinces more effectively than before. Secondly, the organization of the Indian Finance Department and the introduction of the new financial system, described in Chapter VII, gave the Government of India a much stronger hold over the provincial administrations. The appointment of an expert Finance Member on the Governor-General's Council as the coping-stone of the new edifice made the central Government's financial supremacy complete. Hitherto the interference with provincial Governments was vexatious without being effective, but with the introduction of the budget system, the Government of India obtained a powerful weapon in their hands. The customary restrictions in regard to the creation of appointments, alteration of salaries, and so forth, were reasserted, the several branches of service were defined and classified under fixed heads, for each of which a sum was allotted in the budget. No change was to be made in the different allotments without the previous sanction of the Government of India.[1]

The conflict between the central Government and the provinces began soon after the new régime commenced. The proposals for increasing the salt duty and for levying an income-tax, and the protests which they evoked from the Madras Government have already been dealt with. Trevelyan effectively inveighed against the evil of interfering with the details of administration. He wrote:

> In government, as in other things, the true process of reasoning is the Baconian one. We ought to build upon the foundation of actual induction, making only such amendments, whether suggested from within or without, as experience may show to be required. When, therefore, we are asked to conform our system to that of Bengal, we are called upon to forgo the ripe fruits of experience round which the public feeling, and the *esprit de corps* of this

[1] See ch. xvi. See also letter from Frere to Lawrence, 11 May 1864.

presidency have gathered through many official generations, and to enter upon the discussion of what to us are entirely abstract propositions Can we be surprised that, under these circumstances, a feeling of general discouragement and indifference has prevailed, and that a serious check has been given to the progress of improvements" The true function of the supreme Government is to regulate those things which are of common interest, such as diplomacy, post office, customs, etc , to supervise the proceedings of all the local Governments, so that, however much they may differ in form, they may be guided by the same general principles, and, above all, to maintain substantially one financial administration for the whole of British India. After the experience we have had, I doubt whether the supreme Government can be permanently kept within its proper limits until it is made really a general Government for all India, by being placed in a central position, apart from any particular presidency, and by its being composed in its secretariat, as well as in its executive and legislative councils, of officers selected from every part of India, but as Governments have a tendency to be shaped by their most powerful element, which is finance, the immediate remedy is to be sought in that direction [1]

It was in regard to public works that financial centralization was pushed to the greatest lengths The Public Works Secretariat of the Government of India was established by Dalhousie in 1854 with a view to co-ordinating the activities of the Public Works Departments of the different provinces. The central office at first did not interfere very much with provincial affairs, but after 1858 a control of the most detailed kind was attempted Colonel R Strachey who was appointed Secretary in 1862 went into the details of all schemes of irrigation and other works submitted from the provinces and also managed the relations with various railway companies which were then operating in India Not only ordinary public works, military works and railways, but even forests came under the control of the Public Works Secretariat for some time Trevelyan, in his evidence before the Select Committee on East India Finance in 1873, called the Board of Works 'a monster of official centralization, far exceeding the worst that used to be said of the English War Department 'It reminds one', he said, 'of the picture at the commencement of Hobbes' *Leviathan*, of the state absorbing everything' [2]

§2 *Strained Relations with Bombay, 1862-5*

Very soon this central Secretariat came into collision with the provincial Governments of Bombay and Madras, especially the former. The development of Bombay had been delayed by the parsimonious expenditure before 1860, hardly Rs. 7,000 having been spent annually in the Deccan and Khandesh before that date. But when Sir Bartle Frere, hitherto a member of the Supreme

[1] Minute, 13 July 1859

[2] *Report* (1873), p 55, q. 810.

Council, became the Governor of Bombay in 1862, a forward policy of road-building, canal-making and improvements of all kinds was initiated. The cotton boom gave an unhealthy stimulus to this activity. Better transport facilities were needed for carrying cotton to the ports, and the cotton-growing tracts called for more canals and tanks and wells. The Bombay Government wanted more funds, but the response from Calcutta was weak Frere wrote to Sir Charles Trevelyan, who was then the Finance Member of the Government of India

> You desire my views as to what should be done if you have a surplus of one million I should say, 'make roads and canals'. And if you have two or three millions, I should still say, 'make roads and canals', and this not only because they will, in a hundred ways, tend to increase your revenues, but because they will, if well designed and executed, wipe out the greater part of 50 millions of debt, for till you make your railways pay, the expenditure on them is so much addition to your debt After roads and canals, I should say 'pay your courts of justice better and give a much larger assignment to education'. I am thoroughly ashamed of the parsimony with which our education grant is doled out and with the consequent delay in giving effect to the great dispatch of 1854. . . I would not for the present either pay off debt or remit taxation [1]

Accordingly, in 1863, the Government of Bombay asked for larger allotments for roads and canals, but Trevelyan did not approve. Along with other provinces, Bombay was asked to cut down its public works expenditure, on the ground that the cost of labour was increasing and that, when more labour was needed for agricultural operations, it would be mischievous to divert it to public works Frere replied that labour and materials, while dearer than before, were cheaper than they were likely to be thereafter, seeing that prices were rising As for the supply of labour, he said that it 'was limited more by the want of roads and other means of communication than by anything else' Any extra income gained by labourers would be devoted to agricultural production [2] The Viceroy (Elgin) and the Secretary of State (Wood) agreed with Frere, and the cut in Bombay's public works outlay was restored, whilst other provinces bore the cut 'with a grin'. Madras had to put up with a larger cut than Bombay and yet 'swallowed the pin with hardly a grin'

But this was only the beginning of a prolonged duel between the imperial Government and Bombay The next tussle was with Colonel Strachey, the energetic Public Works Secretary In his budget speech on 3 April 1863, Trevelyan stated that more funds could be laid out on roads and canals, provided there was a fair certainty of getting value for the outlay. Encouraged by this,

[1] Letter to Trevelyan, 20 January 1863 See J. Martineau, op cit, vol I, p. 402.
[2] Frere's letter to Sir Charles Wood, 7 January 1863 ibid, p 404.

Frere sent up some supplementary estimates for urgently-needed public works. He wrote 'The country is starving and prices higher than at Delhi during the late famine; because the Government, the great landowner hereabouts, has done nothing for forty years to make the supply of food equal to the rapidly increasing demands upon it' But Strachey refused to consider the estimates He had to satisfy himself about every scheme of works, and the proposals from Bombay did not satisfy his criteria Frere wrote to Strachey

> You may very easily ensure that not a work is commenced throughout India till you have been satisfied as to the minutest detail of plan and estimate But this will end in the paralysis of the P W D You wish to ensure a maximum of work and efficiency and a minimum of expense The means you adopt will ensure the reverse All our money will go in establishments and designs and writing, the work done will be a minimum [1]

The matter was considered by the Secretary of State, who decided that in all minor matters, such as ordinary roads, etc , the control of the supreme Government over provincial Governments must be financial, they must not go into the mode of execution But financial control ought to mean more in works of importance, i e the Government of India before they sanctioned a scheme ought to be satisfied that the estimate was reasonable.[2] This did not satisfy Frere The distinction drawn between provincial Governments and minor administrations was difficult in practice 'No man can at one moment criticize the arches of a bridge in Coorg or Oudh, and the next moment remember that it is the general direction of the road from Madras to Bombay and not the details of execution which he was to discuss with Bombay and Madras Governments'[3]

Strachey insisted that the military barracks all over the country must be built on a 'standard plan', and therefore the works had to be held up until such a plan was approved Frere stoutly protested against this [4]

In 1864, Frere advanced £2,000 as a loan to Maharaja Duleep Singh, a pensioner of the Government, and reported it to the Government of India They objected to it very strongly on the ground that there was no previous sanction and that such action was a gross violation of the budget rule [5] This brought another strong remonstrance from Frere In a letter to Lawrence, he pointed out that according to the budget rules laid down in 1861 the provincial Governments were allowed freedom in the mode of spending the sums allotted under different heads, provided they did not create any new office or alter any fixed rate of pay or exceed

[1] Letter to Strachey, 12 October 1863 J Martineau, op cit , p 423
[2] Wood's letter to Frere, 4 January 1864 ibid , p 429
[3] Frere's letter to Wood, 22 July 1864 ibid , p 431 [4] Ch xiii, §5.
[5] Lord Lawrence's letter to Frere, 14 April 1864.

the whole sum allotted for a head of service or transfer from one head to another without the leave of the Government of India. He wrote:

> All this has been, in practice, altered within the last two years and we are now strictly tied down to the exact details entered in the budget without the slightest power to vary them without your previous sanction. What used to be required was your subsequent sanction and approval, the practical difference is immense. Under your late orders, not a shilling could be advanced on any account, no matter what the urgency of the case. You do not treat us as a merchant treats his agents, advancing money and honouring bills on the assurance that when the agent's explanation comes it will be found that all has been done for the good of the firm. You stop by telegram every payment of which is in this (Surat) case of which you hear accidentally, for which you have not given previous orders.[1]

Frere also defended the freedom of provincial Governments to act without orders in certain circumstances:

> I maintain that there is always in India some need for public servants acting without orders on the assurance that when their superiors hear their reasons their acts will be approved and confirmed, and I hold that when you have extinguished that feeling of mutual confidence between superior and subordinate authorities, and made public men as timid here of acting without orders as they are in England, you will have removed one great safeguard of our Indian Empire. It does not take long so to bridle a body of public servants as to paralyse their power of acting without orders. Your Secretaries treat an opinion on which our Commissioners, Secretaries and Councillors concur, just as if it came from Oude or Singapoor, if anything more critically, requiring the same proof we require from a Collector or a Commissioner. This costs time, and the saving of time is the great object. . . I do not think you would find that real economy is promoted when you discourage the practice of a Government, with such an elaborate apparatus of advisers and councillors as we have here, from acting on its own responsibility, and trusting to its finally satisfying you that it has acted well.

Frere bitterly complained of the attitude of the officers at Calcutta:

> I know you have personally no jealousy of the action of the local Governments, and you would give us all possible liberty. But it is otherwise with most of those about you. The abler and better they are, the less generally do they believe in the possibility of anything being perfect unless they themselves direct every detail. They can see no urgency in the Surat case, simply because what I saw and heard on the spot they cannot see and hear. . .[2]

[1] Here Frere is referring to the purchase of land at Surat for railway approaches and roads, which was disallowed by the Finance Department.

[2] Frere's letter to Lawrence, 11 May 1864. See J. Martineau, op. cit., vol. I, pp. 434-7.

To all this, Lord Lawrence replied, in effect, that budget rules were budget rules and must be followed.

> I have no hope of convincing you that we on this side of India are right, while I do not think that it can be shown we are wrong. . . . We have cause to complain of your Government persistently desiring and working to set aside the budget rules, for we feel that these rules are the only mode of ensuring any real control over expenditure . . . We neither can, nor ought to, give up the control . . . entrusted to us.[1]

Frere also wrote to Sir Charles Wood of 'the constant worrying interference in details which keeps all local officers and departments in a state of chronic irritation and rebellious feelings towards the Government of India'. He added 'He (Lawrence) regards me as the zealous but rather expensively inclined Commissioner of a district with a number of deputies who, like the Commissioner, are a little inclined sometimes to run wild. . . .'[2]

Thus, Trevelyan, who formerly resisted even more stoutly 'the worrying interference' from Calcutta, became himself the ardent advocate of such interference when it lay with him to soften its rigour. However, Trevelyan's version is different. Giving evidence before the Joint Select Committee of Parliament in 1873, he said 'The Bombay estimates were habitually not sent in until after the budget had been made up and they were then in such a crude and unrevised state, that obviously they were merely a collection of the maximum sums which the different local officers considered might be advantageously spent.'[3] Referring to his own notification in 1863, that provision could be made for meeting urgent needs even after the budget had been drawn up, and the supplementary estimates which emanated from the Bombay Government in that connexion, Trevelyan said that the estimates entailed too large an expenditure and that 'all the projects of public works of all sorts that had been proposed by public works officers were gathered up in that estimate. The Government of India had to object to some and ask for further information about others'.[4] Trevelyan also pointed out that this nonchalant attitude was taken up by the Government of Bombay, chiefly on account of the great support it had from Home authorities and from the Home public. 'The Home Government backed by the Home public has a giant's strength which no Indian Government can stand against'.[5]

[1] Lawrence's letter to Frere, 2 November 1861. See B. Smith, *Life of Lord Lawrence*, vol. II, p. 319.

[2] Frere's letter to Wood, 8 September 1861. See J. Martineau, op. cit., vol. I, p. 441.

[3] *Select Committee Report* (1873), q. 791, p. 51.

[4] Finance Member's Minutes, 11 January 1864 and 1 February 1864.

[5] *Select Committee Report* (1872), p. 30. The changed attitude of Trevelyan was much noted in those days. In 1859, he was the oppressed, and Frere, being a Member of the Supreme Council, was the oppressor. They exchanged roles in 1863. See G. Campbell, *The Capital of India* (1865).

This duel between the Bombay Government and the authorities at Calcutta attracted much notice in England, and the controversy dragged on for many years. According to some, the difference was a temperamental one. Lawrence was habitually inclined to economy while Frere favoured liberal spending.[1] To Lawrence again the interests of the Punjab and the North-Western Provinces, which he knew, far outweighed the interests of the rest of India. Further he was a centralizer by conviction and held firmly that only a centralized system would maintain the Empire intact.

Nor was Frere justified in his spend-more-money campaign. Indeed an abnormal demand for cotton created an abnormal need for roads and canals, but he wrongly thought that the demand would continue and that prices would keep on rising. The price boom created a feverish activity and wages as well as prices rose; and the Government, by launching large improvement enterprises, only aggravated the situation. It is now well known that a boom is not the time when the Government should launch a large public works programme. The boom was followed by a slump, and the terrible crash brought the Government also into discredit. The failure of the Bank of Bombay (1867) was a crushing blow to Frere and his policy.[2]

The trouble, however, was not merely due to the ambition or overbearing nature of individuals, for we find that Frere's successor, Sir Seymour Fitzgerald, also complained of the vexatious interference from Calcutta. 'Lately,' he wrote, 'the interference in petty trifles has become so extraordinary that, it would seem as if they wanted to see how far they can go without remonstrance or as if they wanted to pick up a quarrel.'[3] The real cause of the evil was the system itself, as we shall see presently.

§3 *The Differences with Madras, 1858-63*

In his evidence before the Select Committee, Trevelyan said that while the western presidency gave much trouble to the central Government, Madras 'preserved the utmost moderation throughout'.[4] This was also repeated by Sir Henry Durand in a minute of 1867.[5] Madras was perhaps more conciliatory in its attitude, but we have ample evidence that the southern presidency was also greatly annoyed at the meticulous interference from the Financial and Public Works authorities at Calcutta. In 1857, the Government of India ordered that civil public works of every description should be stopped and that the P.W.D. establishment should be reduced to the lowest possible scale.[6] The Chief Engineer pointed

[1] B. Smith, *Life of Lord Lawrence*, vol. II, pp. 311-6.
[2] I. T. Pritchard, op. cit., vol. I, pp. 294-7.
[3] Letter to Frere, 8 July 1867. J. Martineau, op. cit., vol. I, p. 442.
[4] *Report* (1873), p. 76. [5] Minute, 7 October 1867.
[6] *Madras Public Works Department Consultations*, vol. III, 20 July 1857.

out to the Government that great loss would result from such sudden stoppage.

Materials collected are liable to depreciation and depredation . . . or are in danger of being washed away during the monsoons. . . Large sums of money are wasted in a manner which would be condemned as utterly inadmissible in the case of a private individual I am aware that it is partly the result of the 'budget system', but it appears to me that if a certain minimum sum, however small, were allotted to the presidency for new public works under *all* contingencies, the local Government might regulate its sanctions *within* that limit, so as to gradually carry on uninterruptedly every work which has been once actually commenced, until its final completion. Such works would be included in list No 2, as at present, while all great works for the benefit of the country, and all others in excess of the limit allowed to each presidency, would come under the review of the Government of India, and await the decision of that authority . By these means the present extensive waste of public money from inevitable causes, so discouraging alike to the people, and to the Department of Public Works, would be brought within the narrowest limits, at the same time the main principles of the budget upon which so much stress has justly been laid by the Government of India and by the Honourable Court would be maintained inviolate [1]

In 1862 articles appeared in an English journal, *The Builder*, making allegations of mismanagement in the public works carried out by the Madras Government In the meantime a committee had already sat in Madras to consider the reorganization of the P W.D , and, before taking orders from Calcutta, the recommendations of that Committee were given effect to and certain appointments were made pending sanction from the Government of India This caused an angry exchange of letters between the Public Works Secretaries of the two Governments Colonel Strachey wrote that the action of the Madras Government was 'seriously opposed to the instructions given by the Secretary of State', and directed that four of the appointments made be at once cancelled and any salaries paid be refunded He further wrote 'The Government of Madras must be perfectly aware that the orders of the Home Government directly prohibit the creation of any new appointments, or the increase of any fixed salaries in the superior grades of the public establishment, without the previous sanction of the Government of India in the Financial Department, and the course adopted by the Madras Government would have been irregular even had their action been in complete accordance with the instructions of the Secretary of State '[2]

This evoked an emphatic protest from the Governor in Council of Madras. In a minute dated 23 October 1863, he stated that the communications from the Public Works Secretary of the

[1] *P W D. Consultations*, 4 May 1858
[2] Letter, 25 September 1863, No. 2337

Government of India exhibited 'such a disposition on the part of that Government to interfere with the mode in which the Government of this presidency may think fit to carry out the *details* of public business' that he thought it would be desirable to submit the whole correspondence to the Secretary of State with a request that 'steps should be taken to define clearly the limits which separate the functions of the supreme, from those of the local Governments' The Government wrote

It is perfectly true that sundry Acts of Parliament give to the Governor-General in Council full power to *superintend* and *control* the Governors in Council of the different presidencies in *all* matters relating to the civil or military administration, but such powers were, I believe, intended to be exercised only in exceptional cases, and are of such an anomalous character that it becomes a matter of moment to consider whether they should not be accompanied by some explanation or limitation. I cannot but think that there has been a tendency of late years to put upon the expressions of the Acts of Parliament alluded to an interpretation which their framers never contemplated The *superintendence* and *control* mentioned in them would seem to have reference more to principles than details, and, looking to the financial conditions of the country when the enactments were passed, to have been intended to operate specially as a check upon the outlay of money by the local Government They could hardly have been intended to authorize a petty interference with the details of administration for they would not only have been totally at variance with every principle upon which the administration of a great country should be based, but specially at variance with those which it has been the object of the Government of late years to introduce into India Nothing however can be more opposed to this than the practice which has gradually crept in of referring everything to the Governor-General Of course, he alone can deal with matters of general interest, and those in which more than one presidency is interested, but this limit has been overstepped, and claims are made to a right of interference in local matters, as to which an authority guided by advisers necessarily ignorant of the peculiarities of the country and people can hardly be considered competent to form an opinion

He therefore appealed to the Secretary of State to define clearly the nature and amount of the superintendence and control which the Governor-General in Council was to exercise over the local Governments, and he felt certain that 'the machinery of government will work much more smoothly and effectively when it is freed from those jars, pauses and reversals of motion which are the consequences of the present system' [1]

This coincided with a similar protest from Bombay, and in the result the Secretary of State laid down the rule already mentioned about interference

[1] *P W D Proceedings*, 12 November 1863, No 220

§4. *The Incongruities of Centralization*

Whatever may have been the chances of a centralized financial system before 1858, the rapid changes in the economic and political situation of the country after that date made centralization unworkable and irksome. Trade and productive activity had been fast developing; both revenue and expenditure had increased; and to manage the finances of the whole sub-continent from Calcutta became an impossible task. Richard Strachey, who attempted to keep the provincial public works under strict control, soon realized the impracticability of the task. He wrote in 1867:

> I have the strongest conviction, based on my experience gained in the Public Works Department, and fortified by all that I have seen and heard for the last ten years, that the existing financial relations between the Government of India and the local Governments are most demoralizing to the latter . . . The Government of India has altogether lost what power it once had of supervising details by reason of the enormous magnitude of the business now to be performed by it, and the financial mechanism is, as it seems to be, seriously out of gear.[1]

The presidencies of Bombay and Madras were equipped with the whole paraphernalia of government—executive councils, secretariats, legislative councils and large provincial departments functioning over territories as large as those of the great sovereign states of Europe. To scrutinize the details of expenditure of eight provincial Governments operating over such a vast territory was a superhuman task. Each provincial Government tried to get as much money as it could, by the use of the manifold devices at their command.

> While each presidency administered its own finances, there was a strong incentive to economy, but now that the finances have been collected to a common centre, the only object that the local administrations have is to get the largest possible share of the common fund.[2]
>
> While the provincial Governments had no interest in the collection of the revenue, they had a very real interest in its spending . . . If the revenues were prosperous, the Financial Member of the Government of India received all the credit. No one is concerned to inquire in what part of India the increase has arisen and what officials were instrumental in realizing it.[3]

The spending of money was a vital concern of every Government and all of them scrambled for as large a share as possible. Sir John Strachey puts it very vividly:[4]

> They (the provincial Governments) had a purse to draw upon, of unlimited, because unknowable, depth. They saw on every side

[1] Note, 17 August 1867. [2] Trevelyan, *Select Committee Report* (1873), p. 54.
[3] G. Chesney, *Indian Polity* (1870), p. 91.
[4] *Minute on the Administration of Lord Mayo* (Government Printing, Calcutta, 1872), p. 45.

the necessity for improvements and their constant and unchangeable desire was to obtain for their own provinces as large a share as they could persuade the Government of India to give them out of the general revenues of the Empire. They found by experience that the less economy they practised and the more importunate their demands, the more likely they were to persuade the Government of India of their requirements

Thus the relative importance of the claims of the provinces was sometimes estimated rather by the persistence of their demands than by their intrinsic weight Often those who knocked most importunately at the door of the imperial Secretariat got most. This broke down the morale of the provincial Governments The distribution of public income thus 'degenerated into something like a scramble in which the most violent had the advantage'.[1]

This scramble made the Indian budget of the 'sixties a 'mere farce', according to those who were responsible for drawing it up Trevelyan has given a graphic account of the budget transactions of those days.

The pressure on the Finance Department from the local Governments at the time of the preparation of the budget is overwhelming, they have all a pull at it It is much the same as when the Poor Law administration of the United Kingdom was supported out of a common fund The drive in the Financial Department at Calcutta at the time of making up the annual budget exceeds anything of which I have experience, except the work during the Irish Famine, that was equal to it, but it was not heavier The putting together and the rearrangements of the estimates in order to bring out the financial results, fully occupies the office, and there is no leisure for detailed scrutiny, even if the requisite detailed information existed at Calcutta which it does not And if the Finance Department proposes to curtail any item, it does it at its peril It is immediately met by the statement that the particular item objected to is indispensably necessary for carrying on the local administration [2]

Massey, who succeeded Trevelyan as Finance Member, was equally vehement in his criticism of the centralized system Each of the eight administrations had to send its budget to the Government of India for approval, and the whole was incorporated into one volume

If the Government of India puts its finger on one item, and says 'it is excessive', they say 'it is not, it is exceedingly economical, and you cannot diminish it without starving the service'. If you say that such and such an expenditure can be altogether dispensed with, there is a chorus of remonstrance from the whole band of officials of that Government which overbears the Government of India, and probably an appeal to the Secretary of State, which results in a dispatch requiring the expenditure to be allowed So

[1] See also G Chesney, op cit, pp 95-6
[2] *Select Committee Report* (1873), p 54

that the control which the central Government exercises over the expenditure of India is of the weakest possible description [1]. . The arm of the central Government is not long enough to reach the numerous powerful, and I may say, semi-independent Governments of India I may remind you that the presidencies of Madras and Bombay are in direct communication with the Secretary of State, and they are disposed to resent the interference of the Government of India, and to regard the Government of India more as an equal than as a superior We found that, I may say, specially with regard to the presidency of Bombay, that our power of financial control over the expenditure of Bombay was baffled and defeated almost at every point These great Governments had nothing to do, but to aggrandize the importance of their administration, by making out expensive estimates, and by maintaining the absolute necessity of all those estimates when they were criticized by the central Government. It was a very serious responsibility for the central Government to take upon itself to say that this and that expenditure, at a distance of thousands of miles under a semi-independent administration, were necessary Of course, you might arbitrarily strike your pen through a certain item of expenditure, and say 'it shall not be allowed', but that was a responsibility which the Government of India were exceedingly loath to assume [2] My impression is that the present system of finance wholly fails in one most important safeguard of finance, that is, in imposing a principle of economy or a motive for economy, upon the spenders of public money. The local Governments have nothing to do but to draw upon the imperial treasury, and of course, they think that the more they draw the more it will redound to the honour of their administration Again, I would ask the Committee to look at this feature of a central system of finance over a vast country such as is represented by that map before us Is it not strange that the people of Burma or the people of Madras should be taxed to make roads or wells, or buildings, in Bombay or in the Punjab? But that is the case under the present system If you bring the whole of the resources of India into a hotch-pot as we do, one district gets more than another, and another does not get its proper due . [3]

Evidently matters had come to such a state that only a radical change could remedy the evil But it was not so easy to effect such a change

[1] Ibid, p 460, q 8587 [2] Ibid, q 8586
[3] Ibid, q 8589

CHAPTER XII

EARLY PROPOSALS FOR FEDERAL FINANCE

IMMEDIATELY after the new financial system was established, the incongruities of centralization became patent, and strenuous attempts were made by responsible persons to introduce a measure of decentralization. Some of the proposals were really federal in character. As we shall see, there were great difficulties in putting such schemes into operation, and the first steps in decentralization were taken only after ten years.

§1 *Proposals for Devolution*

Although James Wilson spent only eight months in the country, he seems to have drawn up a scheme for enlarging the powers of provincial Governments, but it did not see the light of day. However, it is noteworthy to find that he made a provision in his Income-tax Bill for the appropriation of a fourth of the collections for local purposes although his idea was to hand it over to the municipalities where they existed. He also pointed to the example of the United States where every 'state' had a property tax of its own.[1] But he was not for weakening central responsibility to any substantial extent. Sir Bartle Frere wrote in 1860 that Wilson had 'a great idea that to treat India as containing numerous different nations is as great a mistake as to dissolve the Union or restore the Heptarchy'.[2]

Soon after Samuel Laing took charge of the Finance Membership, he came to the conclusion that a large devolution of powers to the provinces was necessary. He realized that the financial crisis resulting from the Mutiny could not be overcome by central taxation alone. The provincial Governments could raise fresh taxes, and such revenues might be used for provincial needs. He placed this matter before the provincial Governments in a confidential circular, suggesting that tobacco be taxed. The replies from the provincial Governments about the proposal to tax tobacco centrally had brought out the difficulties of raising a uniform tax on tobacco, but a provincial tax was much more feasible. This was to form the nucleus of a provincial budget, and more taxes could be added afterwards.

In his budget speech in 1861, Laing said:

> It is heart-breaking to hear of districts barren for want of water where water is to be had, of roads half-finished and abandoned or

[1] Financial Statement, 18 February 1860.
[2] Letter to Barrow Ellis, 31 July, see J. Martineau, op. cit., vol. I, p. 311.

finished but useless for want of some bridge which has tumbled down. India has two great wants—irrigation and communications, I do not mean grand schemes only which strike the imagination, so much as village roads, and tanks and water cuts, which enable every rood of ground to grow its crop and send it to the market. . . . Such works we are most anxious to encourage and accordingly, instead of simply curtailing the imperial allotment to the local Governments we say to them . . 'Take what we are able to give you, and for the residue take certain powers of local taxation and raise it for yourselves' . It has long been a standing complaint with other presidencies and provinces that they were deprived of their fair share of self-government, and kept in a state of galling and humiliating dependence on the bureaux of Calcutta . . The power of the purse is the ultimate power, and as long as local Governments are absolutely subservient to Calcutta in financial matters, evidently they can have no real independence But if, without sacrificing in any way the unity of the Empire and imperial control in imperial matters, we give them local budgets, their position is altered.

Each Government will therefore have direct interest in economy, in order to increase the fund applicable to local works, and I cannot fancy that Madras, for example, will long continue to spend £160,000 a year in public works establishments to look after £460,000 a year of expenditure upon actual works, where it is apparent that every pound extra spent on establishments means one pound more to raise by local taxes, or £1 less to spend on roads and canals It is obvious that such a system of local budgets would harmonize extremely well with . (the establishment of) local legislative councils [1] . It would at once give them an appropriate and dignified position The scheme would greatly foster the growth of municipal institutions and, what is still more important, of the spirit of local self-help and self-guidance which is at the bottom of a nation's greatness [2]

Accordingly, he proposed to transfer charges amounting to £500,000 to provincial budgets The proposal was circularized among the provincial Governments but did not evoke any enthusiasm among them Madras and Burma flatly refused the offer. The Governor of Madras (Sir William Denison) remarked that Madras was already heavily taxed, and feared that a new tax would expose the Government to obloquy J D. Maltby, a member of the Council, considered the proposal quite insufficient for achieving the aim in view 'If they (provinces) are to enjoy real liberty of action and management, it seems to me that the Acts of Parliament affecting India must be altered so as to give them a control over the general taxation and expenditure within their range, subject to the condition of supplying a fixed contribution to the imperial treasury' [3] The Bengal Government agreed to raise a tax on tobacco and betel by means of a licence,

[1] The provincial legislative councils were inaugurated in 1862 by the Indian Councils Act, 1861

[2] Budget speech, 27 April 1861, *Legislative Council Proceedings*, pp 359-61

[3] Letter from Madras, 22 April 1861

but wanted in addition that the existing licence tax should be provincialized. This latter the central Government were unwilling to do.

Evidently the proposal was premature. In his budget speech in 1862, Laing explained that the matter must be left to the new provincial legislatures [1] He still asserted his unswerving faith in devolution 'I am as strong as ever in favour of the principle of local taxation for local objects In fact, if this great Empire is ever to have the roads, the schools, the local police and other instruments of civilization which a flourishing country ought to possess, it is simply impossible that the imperial Government can find either the money or the management' In the result, local taxation was not raised, but a sum of £250,000 was placed at the disposal of local Governments, mostly for opening roads in cotton tracts on schemes approved by the central Government However, a number of local taxes were levied soon afterwards, as we shall see in the next chapter.

§2 *Increase of Expenditure*

The expenses of government went on increasing, but revenues did not keep up The principal cause of the increase in expenditure at the time was the general rise of prices and wages which resulted from the cotton boom of 1864-5 'We are', said Trevelyan in 1864, 'in the midst of one of those social changes which mark the progress of nations A general increase of prices and wages must be followed by a general elevation of the standard of public expenditure' [2] The effects of this economic transformation were manifold. Firstly, it increased the cost of the existing services The pay and allowances of officers, both civil and military, had to be largely increased, and, according to Temple, this increase was from 15 to 30 per cent by 1869 [3] As the prices of foodstuffs rose, the expenditure on commissariat contracts largely increased, and as wages increased the outlay on public works became necessarily larger Secondly, the economic changes after 1860 necessitated also an increased administrative equipment Reform in every line was called for, and it invariably meant increased expenditure The army authorities wanted barracks on an elaborate plan, and this meant on an average £1 million a year Others wanted a better system of police, and this involved a larger personnel on higher salaries Jail reform was another favourite theme of the time It was proposed to adopt the cellular system of England, at a cost of not less than £12 millions. This proposal made many wonder whether the prime concern of the

[1] Budget for 1862 3
[2] Financial Statement, 7 April 1864, also Financial Statement, 1865
[3] *Legislative Council Proceedings* (1869), p 120

Government was the criminal or the peaceful citizen. John Strachey caustically remarked

> When I think of all that has to be done in India for the honest part of the community, how roads and railways and canals have to be made, how the people have to be educated, and ten thousand works of improvement to be carried out, it seems to me monstrous that we should have to discuss these schemes which I can only characterize as schemes of silly sentimentality [1]

The fall of purchasing power meant an increase in the Government's burdens and a fall in their real income Had the money income correspondingly increased, there would have been little inconvenience But with land revenue as its mainstay, the Indian tax-system was necessarily inelastic As the customs duties were still a minor item, and the income-tax had been abandoned, the Government did not benefit appreciably by the rise of prices Further, opium was a very unsteady source of revenue, and it repeatedly upset the calculations of successive Finance Members

The total expenditure of India increased from £44 millions in 1861-2 to £50 millions by 1870-1 The increase in military expenditure was not great, but civil charges rose largely The total civil charges in 1861-2 were £14 2 millions, but rose to £19·8 millions by 1870-1 Of this increase, charges for revenue collection, law and justice, and miscellaneous items were responsible for the amounts of £1·29, £ 7 and £ 87 respectively The increase under miscellaneous was the most striking—from £520,000 in 1861-2 to £1,400,000 in 1870-1

Massey realized at the very outset that some drastic remedy was necessary In 1866 it was proposed to revive the income-tax, but this proposal met with serious opposition and the idea was dropped. In 1867 the Government imposed the licence-tax in the teeth of opposition from the influential European business community in Bengal [2] A large public meeting was held in the Town Hall at Calcutta to protest against the Bill, and it was said 'that the cheers which greeted the orators were loud enough to be heard in the Government House close by' [3] Although the Bill was passed in a modified form (as a certificate tax), the Government realized the difficulty of imposing any new tax burdens

Massey also was convinced of the futility of the imperial Government managing the whole of the finances of India He repeatedly pointed out that for meeting the growing need for economic improvements local taxation was essential In 1867 he said 'In the vast and various provinces which are united under the dominion of the Crown throughout the continent of India,

[1] *Legislative Council Proceedings*, 20 March 1868, p 193
[2] *Legislative Council Proceedings* (1867), pp 185-92, Pritchard, op cit, vol I, pp 276-8
[3] Sir Richard Temple, *Men and Events of My Time*, p 336, also Pritchard, op cit, vol. I, pp 276-8

there are many sources of revenue which might be made available for local purposes, but which could not be used for imperial objects without giving rise to just complaints of partial exaction, or even of breach of faith.'[1] There were also technical difficulties in increasing central taxation. The permanently settled estates claimed immunity from further imperial imposts, but the local Government could tax them for local purposes, for carrying out improvements which would directly benefit the landholder. Further it was impossible for the imperial Government to exercise effective financial control over the provinces, and the only means of preventing extravagance was to impose some responsibility on the provincial Governments. Massey therefore decided upon a scheme of provincial finance, and in 1866 addressed a circular letter to all provincial Governments proposing to transfer to them certain heads of expenditure like education, police, jails and public works, and suggesting that funds might be found from a licence-tax, a house-tax, an octroi, and a succession duty. The proposal was received coldly by the provincial Governments. The Bombay Government suggested that income-tax should be re-imposed and the proceeds distributed to the provinces.[2]

§3 *A Scheme of Federal Finance*

As the financial position of the Government continued to be unsatisfactory, Massey put forward another scheme of decentralization in January 1867. The details of the plan were worked out by Richard Strachey, who had in the meantime become an ardent advocate of decentralization. The new scheme was one of federal finance, and it evoked a keen controversy throughout the country. A detailed account of this scheme should be valuable at the present time, when a full-fledged scheme of federal finance is being introduced.[3]

Strachey's note of 17 August 1867 was the first and the most complete description of the scheme. His main idea was a gradual federalization of the Indian financial system. He argued that 'the old rigorously centralized system of finance had shown the most unmistakable signs of its incompatibility with the existing state of things', and suggested as a remedy that so far as practicable 'the entire revenues and expenditure should be placed on the local Governments'. This change was not, however, to be effected immediately, but by degrees, so as to avoid all risks of confusion in the public accounts, while educating the local officers in matters of financial administration. Although the immediate reform which he proposed was small, Strachey had a clear

[1] Financial Statement, 1867-8, *Legislative Council Proceedings*, p. 154.
[2] Governor's Minute, 25 November 1866.
[3] A paper by the author in the *Indian Journal of Economics* (1926) on 'An Early Proposal for Federal Finance' has been incorporated here.

vision of the end to be aimed at The central Government should ultimately be divested of detailed concern with all those items of expenditure which pertained to branches of administration, the details of which it could not properly control. 'Thus,' wrote he, 'I should conceive that the financial position of the central authority should by degrees be brought to assimilate generally to that of the United States central government, though, of course, powers of supervision and control of a general nature must continue to be exercised over the finances of the separate local administrations which have no existence in the case of America'

Federalism was thus the definite goal aimed at by Strachey and Massey The success of the federal constitution of the United States had become generally recognized by that time, and even the Civil War which then raged did not shake this opinion. In the 'sixties federalism was much discussed in England in connexion with the Dominion of Canada Act Even apart from these factors, the physical and political conditions of India have always been such as to suggest a federal analogy

The immediate measure of devolution proposed by the Finance Member was not of any large magnitude It was only a first instalment of the federal finance system which was ultimately to be set up A few charges under heads such as jails, education, medical services, and roads were to be transferred to provincial management, and in order to meet these charges, the whole of the revenue credited to the heads, law and justice, and education, was to be handed over to the provincial Governments, as also one-sixteenth of the land revenue and one-fourth of the revenue from licence-tax collected in the provinces For the rest, the provincial Governments were to be permitted to raise fresh taxation or to levy an extra cess on existing taxes

Strachey recommended the transfer of a portion of the land revenue on the ground that it was 'perhaps the best general standard by which to measure many of the claims for public outlay' In his opinion this held good in particular as regards the charges for roads, the whole of which he proposed to transfer to local management 'It is mainly to the agricultural interest that good roads are of importance. India being essentially an agricultural country and its wealth depending so greatly on the possibility of its produce being exported with profit, the construction of roads is of the first necessity for general prosperity'

The idea of sharing the existing revenues was suggested because it was hoped thereby to give the provincial Governments an incentive to administer those taxes economically and efficiently. It was also intended as a means of 'creating distinct local revenues, without the introduction of new forms of taxation and without the action of separate tax-gathering establishments, both of which necessities must arise under any other system and both of which are, if possible, to be avoided'. In this manner the

provincial Governments were to receive a revenue estimated at £2·7 millions, against which the charges to be transferred came to £1·5 millions. The balance, £1·2 millions, was to be used for public works. The provincial Governments were to have a regular annual budget showing their revenues and expenditure, and each province was to have a separate Finance Department. However, the Government of India reserved the right to withdraw the revenues in case of emergency.

Massey claimed that the reform proposed would (1) lead to economy and check extravagance by the provincial Governments, (2) make both the central and the provincial administrations more efficient, and (3) give the quietus to the unpleasant jealousies and bickerings between the Governments. That India was not fit for a uniform tax-system had already been demonstrated by the tussles with Bombay, and it was clear that no advance could be made without some real decentralization.[1]

Sir Henry Maine and Sir William Mansfield, Members of Council, gave strong support to the proposal. Maine was certain that the system of financial control was 'at all events in danger of going to pieces, unless the strain be lightened somewhere'.[2] All that the central Government could do was to rebuke the provincial authorities, but that was not a very serious penalty, and one could easily become callous.

> It seems to me to be too hastily assumed [wrote Maine] that the nearly exclusive control now enjoyed over the finances of the country by the Government of India results necessarily and inevitably in economy. . . . The truth is perpetually before us that the Indian Government, in all its parts, is one of the most ephemeral in the world. Five, ten, or fifteen years hence, we may have a Governor-General with special crotchets—let us say military crotchets—which may lead him to expenditure transcending the most wanton extravagance of all the local Governments together, and for which, moreover, there would be nothing to show. . . . I see positive advantage in curtailing to some extent the proportion of the revenues of India at the absolute disposal of the central Government, and in fully appropriating a considerable part of these revenues to the needs of local Governments. I can quite conceive a campaign in the Oxus or Jaxartes being undertaken with less precipitation if the supreme Government had lost the power of summarily stopping all public works throughout India and could only pay for military glory by borrowing or taxation. If the Indian public debt be analysed, I venture to say that, putting aside the results of the event of 1857, it will be found to have been mainly incurred through imperial and not local extravagance.[3]

Sir William Mansfield pointed out from his own experience that there had been perpetual friction between the central Government and the provincial administrations. He wished 'to make

[1] Minute, 19 September 1867. [2] Minute, 10 September 1867.
[3] Minute, 13 September 1867.

the local Governments partners in the great joint stock of the Indian finances . . . instead of keeping them on the footing of agents and servants who, having no motive for economy in using the means of their master, think only of enhancing their own demands by comparisons, more or less well-founded, with the indulgence conceded to others.' He thought that there was an appropriate analogy between India and the United States in a general way. India was in reality 'a bundle of Governments', even as the great American Republic. He would not be contented with mere financial decentralization as suggested by Strachey, but would like to see the finances and laws of the Empire discussed annually at a conference of the provincial Governors and Commissions with the Supreme Council. 'In this manner', he said, 'could local Governments be more closely associated with the central Government to compare the institutions, the wants and appliances of the several Governments, to state fairly before the public their own demands and to co-operate under the Governor-General for imperial purposes.' This would, he thought, serve the same purpose as the Congress of the United States. At the same time he was for unifying the presidency armies under a single War Ministry of the Government of India. He considered the presidency army system as a case of decentralization of the wrong kind, unsuited even for a federal system.

§4 *The Madras Scheme*

The scheme was circulated among provincial Governments for their opinion.[1] Most provinces welcomed it ardently, but Madras was dissatisfied. The Madras Board of Revenue made a thorough analysis of the scheme and drew up an alternative proposal which deserves credit as a financial document. The general lines of their scheme were: to determine what should be considered the imperial or national expenditure of the Empire; to distribute this fairly among the several provinces, and require each to contribute its share thus apportioned, year by year, making it a first charge on its revenues, to leave its local administration in all other respects to itself, subject to that general control which must exist to ensure the due payment of its quota. 'If the central Government first determines what each has to contribute,' wrote the Board, 'each province must adjust its requirements to its means.' Madras was then contributing more than its proper share to the imperial exchequer, and only a system of federal finance could have removed this injustice to the oldest presidency of India.

The Board went into elaborate detail in justifying their alternative scheme. They analysed the Indian budget, item by item, and distinguished in that jumble of scattered 'grants' the legitimate spheres of the central and provincial budgets. As the

[1] Circular letter No. 2823, 19 September 1867.

imperial charges came in all to £24,787,416 The items included in it could not justly be charged to any special province. It was the common expenditure for national purposes and should have been met from the combined purse of all the provinces. However, they found also certain items of revenue legitimately belonging to the central Government, but these revenues would meet only a part of the imperial expenditure The really imperial items were, *inter alia*, the mint, post office and telegraphs All these together would not produce more than £2,467,960 The balance, £22,319,456, had to be made up by taking a percentage of the gross revenue of each province If a percentage of land revenue alone were taken, it would fall as a heavy burden on Madras, where land assessments were the heaviest. Similarly, an apportionment based solely on indirect taxes (customs, opium, etc), would be unfair to Bengal and Bombay. Therefore it would be best to take from every province a contribution proportional to its gross revenue

It was also pointed out that the existing financial arrangements were unfair to Madras The Madras army was maintained by the revenues of the presidency, but had to garrison the Central Provinces and Burma as well Bombay too had similar external charges But neither of them got a subsidy for such services The right thing would be to make the whole of the regular army an imperial charge 'It [the Madras army] is in reality maintained for the security of the Empire at large from internal rebellion and foreign aggression The safety of the whole depends on the safety of each part, and it could never be permitted to any portion of the Empire so to reduce its military force as to disable it from succouring any other portion in the time of need, or so to increase it as to endanger the Empire'[1]

If the burdens of the Empire had been apportioned on the above basis, Bengal would have had to contribute £7 7 millions, Bombay £4 4 millions, Madras £3·7 millions, the North-Western Provinces £3 millions and the Punjab £1·7 millions Bengal and Bombay would thus have a deficit, while Madras would have a surplus, which could be used for long-delayed public improvements

The Government of Madras were also convinced that the provincial budget should be discussed and approved by the local legislative council Sir Alexander Arbuthnot Member of Council, declared that this had long been an article of his political faith With a view to establishing a thoroughly effective check on the expenditure of the local Government, it would be useful to pass the budget, section by section, and embody it in an Appropriation Act The appointment of non-official members had proved a source of strength, and not a source of embarrassment, as some had feared.[2] The same views were later pressed by him and by the Madras Government in 1870

[1] Board Memorandum, 27 January 1868
[2] *Madras Legislative Council Proceedings*, 23 February 1871.

§5 *Imperialism versus Federalism*

In a striking minute of 1868, Lord Napier of Merchistoun, Governor of Madras, made a searching analysis of the merits and defects of federalism for India. In his opinion the federal system had great advantages Firstly, the provincial Governments would be interested in raising as large a revenue as could be raised consistently with the welfare of the country Secondly, the provincial Governments would act with more reflection and energy in the prosecution of public improvements. 'Their plans for public good would not be checked or overturned by a distant authority, their responsibility would not be divided, their credit would not be shared, and the financial results of their labours would be retained in the provinces' Thirdly, provincial budgets would be protected against the mistakes and delays resulting from the interference of a controlling external authority which was itself overburdened with work and incapable of dealing with local details Fourthly, the burden of taxation would be more willingly borne by the people, because they would feel that the bulk of the revenue was spent for them directly.

At the same time, Napier found more substantial merits in an imperial system Firstly, a centralized system of finance went very well with a centralized system of administration and only such a powerful administration could have the resources and prestige to impose over the Indian states, to overshadow them, even to be generous to them, and to keep the rival factions in the country under control Secondly, the strong position of the central Government invested it with a degree of credit in the English money market which was about equal to that of France or the United States, and superior to that of Russia Thus India could borrow her capital at 5 per cent If the central Government became a 'pensioner of the provinces', it would not be able to command such credit either in England or in India, and even Indian capitalists would be reluctant to lend to provincial Governments The greatest need of the hour was public works, and under a federal system it would be difficult to find the resources for carrying out such works Thirdly, several common interests of India and the interests of backward parts were bound to suffer under a federal system The maintenance of frontiers, the improvement of ports and harbours, the maintenance of a powerful army or navy, all these required a powerful central Government with authority all over the country Fourthly, a certain amount of uniformity was necessary for the harmonious development of a sub-continent like India. A common system of civil law and administrative practice was essential Without a powerful central Government, divergences of a very inconvenient kind were likely to arise in law and administrative practice. Fifthly, a powerful central Government was a military necessity at the time. Only

such a Government could bring together all the resources of the country, in men and money, against foreign aggression; and with the growing menace of Russia and the recurring disturbances on the Frontier, a federal system would be a dangerous experiment. Sixthly, Napier also thought that the centralized authority of the Government of India represented the majesty of the British sovereign, and filled the place of the Great Mogul in Indian imagination. In his opinion such a tradition of autocratic sovereignty was congenial to the oriental mind, and essential to the allegiance of the numerous peoples and principalities of India.

On all these grounds, Napier thought that, on the whole, an imperial system was preferable to a federal system, in the circumstances of the time. But if a federal system were preferred, it could not be secured by the 'partial' proposals of Massey. Parliament would have to move and a congress be called in India with representatives from the provinces. But if finance were thus federalized, administration had also to be federalized. He had no faith in half-measures and therefore opposed equally the Massey scheme and the proposals of the Board of Revenue.[1]

§6 *Opposition in the Government of India*

In the beginning, Lord Lawrence, the Viceroy, was not opposed to Massey's scheme, but he was reluctant to support it.[2] Subsequently, he became more and more suspicious, as is clear from his later minutes and the evidence he gave before the Parliamentary Select Committee.[3] He was convinced that a centralized Government was necessary for India's defence, and he greatly feared that decentralization would weaken the Government and endanger the safety of India. He also denied that the financial control of the Government of India was 'going to pieces' (*pace* Sir Henry Maine). The analogy of the United States would not hold, because in India, the Governments were not controlled by the people. Indeed there was no harm in transferring portions of revenue and expenditure to the provinces, but the central Government must maintain a strict watch. It was said, in justification of the federal proposal, that when the provinces got the power to spend money they would raise more taxes, but this was a dangerous possibility. Whether fresh taxation was imposed by the central Government or by the provincial Governments, it would be equally unpopular, for neither of those Governments existed by the people's consent. Lawrence said: 'Every official who is connected with the Government, particularly the higher officials, are all looked upon as part and parcel of the same system, and whether I as collector, or commissioner, or Lieutenant-Governor, or (we will

[1] Minute, 15 February 1868. [2] Minute, 7 September 1867.
[3] Minutes of 27 September and 22 October 1867. *Select Committee Report* (1873).

say) as Governor-General, initiate and carry out a particular policy, it is all considered as belonging to the one Government and the one system '[1] Therefore, wisdom lay in keeping taxation light. 'We are a handful of foreigners in this country', wrote Lawrence. 'To tax the people the least and to use the taxes for beneficent administration is our best policy, and this is the way to consolidate our hold on the country'[2] If the provincial Governments were left free to tax, it might create discontent and might end in another Mutiny

These views were powerfully supported by Major-General Sir Henry Durand, Member of Council He denied that the financial control exercised by the central Government was vexatious

> Strangely enough, the Government that has been treated with the greatest liberality if not laxity, by the Government of India is precisely that which has shown most disposition to evade, if not oppose, the financial control of the central authority There has been no difficulty in our relation with the Madras Government, on the contrary, with hardly an exception, nothing can have been more moderate and economical than the procedure of that local Government. Bombay alone has sought to push away attention from numerous, and some of them very gross, cases of irregular and profuse expenditure by raising the cry of petty and vexatious interference on the part of the Government of India I confidently assert that at present there is absolutely no ground whatever for the allegation that the financial control of the Government of India goes to the extent of the excess To subvert the financial control of the central Government, because one out of nine administrations has proved rather refractory, is about as sensible a procedure, to my mind, as to annul the Articles of War and the powers of the Commander-in-Chief, because a regiment should happen somewhat to misbehave I venture to doubt the statesmanship of ruling either India or armies in this way[3]

This line of reasoning decided the fate of the scheme In 1868 the matter went up to the Secretary of State Sir Stafford Northcote, in the course of a debate in the House of Commons, said that, although he concurred in the principle of Massey's proposal, 'he would be the last to recommend the weakening of a system that had raised the credit of India to the highest pitch' It was the fear of another mutiny that weighed with Parliament in assenting to this view There the matter ended

The fears of the imperialists were largely unfounded Neither Massey nor his supporters wanted to weaken the position of the central Government What they wanted was to ease the burden of that Government by transferring some financial power to the provincial Governments But such powers were to be exercised under the supervision of the central Government The local needs of the provincial Governments were growing and the only way

[1] *Select Committee Report* (1873) [2] Minute, 22 October 1867
[3] Durand's Minute, 7 October 1867.

of meeting those needs was to raise local taxes and to spend the proceeds of such taxes with the concurrence, in some form, of local representatives With such a *quid pro quo*, taxation could become less unpopular and the burden of the central Government could be eased This policy was soon put into effect and none of the dangerous consequences feared by Durand resulted from it Durand might have raised such objections to the scheme of John Bright (1858), but they had no point in connexion with Massey's modest proposals.

However, India was not then ripe for a full-fledged system of federal finance There was not yet in India a degree of political and economic unity sufficient for the formation of a federation Further, there was no meaning in talking of federalism when both the central and provincial Governments were equally controlled by officials A government must be controlled either from above or from below In the absence of popular control, the control from above was necessary Therefore, federalism was then premature for India, and the country found greater safety in the instinct of Lawrence than in the reasoning of Massey

§7 *Increased Taxation*

Thus this early proposal for federal finance failed The result was the re-imposition of the income-tax Lord Lawrence had made up his mind before he left India in December 1868 to convert the certificate tax into an income-tax, and his successor, Lord Mayo, agreed with him Accordingly, the new Finance Member, Sir Richard Temple, introduced a bill, in March 1869, 'for imposing duties on income and profits arising from offices, property, profession and trades' [1] The certificate tax was already an income-tax restricted to certain classes, and it was fair to place a similar burden on all other classes The rate was to be the same as for the certificate tax, i e 1 per cent , but later in the year it was raised to 2 per cent Not only traders and fund-holders but landholders were also assessed to the tax Most of the exemptions under the certificate tax were swept away, but insurance companies were exempted The bill was passed without much opposition

Even then, the finances of India showed no improvement On the other hand, they deteriorated A surplus was expected for the year 1869-70, but as the year advanced, all indications pointed to a large deficit, due chiefly to the depression in trade and the fall in the price of opium The Government therefore proposed an enhancement of the income-tax to 2 per cent The Maharaja of Jaipur and Major-General Sir Henry Durand opposed this measure Replying to the Maharaja, Temple said that the income-tax might

[1] *Legislative Council Proceedings*, 6 March 1869, pp 101-32 also Sir Richard Temple, op cit , p 337

be odious to those who would pay it, but not to the people generally. Only one person in a thousand would pay it. The Government also increased the salt-tax in Madras and Bombay. The duty in Madras was raised from Re 1-11 per maund to Rs. 2 per maund In Bombay it was raised from Re. 1-13 to Rs. 2 per maund. The immediate occasion for this was the financial stringency, but it was also necessary for moving towards the goal of equalizing the salt-tax all over India.

By these measures, the impending deficit was converted into a small surplus. But the experience of four years convinced the Government that the only radical remedy for the chronic deficits was the decentralization of finance

When the financial statement was presented on 2 April 1870, a bill for renewing the income-tax was also placed before the Council It was proposed to raise the rate to 6 pies in the rupee, or $3\frac{1}{8}$ per cent This roused some opposition The public considered the income-tax as an emergency measure, and to continue it from year to year was regarded by many as impolitic. Strachey pointed out that in no other way could the financial needs be met than by imposing an income-tax The estimated yield of the tax was £2,180,000, but the actual yield was slightly lower In 1871 the Finance Member again moved for a renewal of the income-tax and all the old objections against the tax were repeated once again Inglis, an officer who had had experience of income-tax collection in the North-Western Provinces, complained about the lack of reliable data for assessments, which made the tax 'so hateful to the officer who had to assess it and the people who had to pay it' Several cases of corruption and oppression had occurred, a large number of people bribed the subordinate officers to keep their names off the list He believed that 'for every man who paid income-tax to the Government, twenty paid to get off; and that for every rupee paid into the treasury, another was paid to the subordinate native officials' In his view, the income-tax demoralized the people of India and created widespread disaffection John Strachey questioned this statement In his own experience, no serious oppression had arisen on account of the income-tax Sir George Campbell[1] pointed out that incomes from property and from labour should be assessed at different rates[2]

The income-tax was again imposed in 1870-1, and, as a result of the increased taxation, drastic retrenchment and the measure of decentralization, the year 1870-1 closed with a surplus of £1,482,990, which was half a million more than the estimated surplus.

The income-tax was continued for two years longer, but the taxable minimum was raised from Rs. 500 to Rs. 750 in 1871-2 and to Rs. 1,000 in 1872-3 Year after year, there was repeated

[1] Lieut.-Governor of Bengal [2] *Legislative Council Proceedings* (1871), p 404.

criticism on its renewal, and the discussions of the annual Financial Statement became lively Official members expressed their opinion freely in those days, and the non-official European representatives were loud in their criticism of the Government. The provincial Governments also became more and more opposed to the income-tax Sir George Campbell held that a proper assessment of income-tax was difficult in the existing state of statistics In the opinion of Sir William Muir, the great objection to the tax was that it destroyed the influence and popularity of the district officers and fostered suspicion and concealment on the part of the moneyed classes The Madras Government considered the income-tax to be entirely unsuited to the conditions of the country However, the Finance Member was unwilling to give it up, and its abolition in 1873 was chiefly due to the opposition of the new Viceroy, Lord Northbrook

CHAPTER XIII

DECENTRALIZATION OF FINANCE, 1870-1

§1 *Genesis of the New Measure*

At last, the dreams of Laing and Massey came true. The financial dislocation resulting from the increase of expenditure and decline of revenues after 1866 has already been dealt with. Immediately after Mayo took charge of the viceregal office, he realized the seriousness of the situation. Expenditure went on increasing, but revenue did not keep pace. Year after year the budget closed with a deficit, and the accumulated deficits from 1866 amounted to above £6 millions. He boldly carried out retrenchment and imposed additional taxation, but he soon realized that such measures were not adequate for restoring financial equilibrium. Demands from the provinces were increasing, and this was the crux of the situation. 'There was only one remedy to prevent the demands being made and this could only be done by imposing on the local Governments a real and effective responsibility for maintaining equilibrium of their local finances.'[1] As the Government Resolution put it: 'It was expedient that as far as possible the obligations to find the funds necessary for administrative improvements should rest upon the authority whose immediate duty it was to devise such measures.'[2] Lord Mayo therefore proceeded to strike at the root of the difficulty by initiating the first successful measure of decentralization. Thus he set in motion a force which, gathering momentum in successive periods, has brought India to the threshold of federal finance.

Before the close of 1869 Lord Mayo launched his scheme for discussion and elaboration. Fully recognizing the value of focussing attention on the question, Mayo placed the measure before the Legislative Council at the very outset. Temple and Strachey strongly supported him.[3] Temple's minute[4] which began the discussion, stated that he was only carrying out what he understood to be 'the tendency of the views and wishes of the Governor-General'. Mayo wrote: 'I am determined not to have another deficit even if it leads to the diminution of the army, the reduction

[1] Minute on Lord Mayo's Administration by R. Strachey.
[2] Resolution No. 331, 14 December 1870, par. 3.
[3] Temple had himself adumbrated a scheme of decentralization before Mayo arrived, whereby he proposed to enlarge the financial powers of the Madras and Bombay Governments, and naturally he would have been keenly interested in putting through Mayo's measure. But he had to leave for England soon afterwards and the whole burden fell on John Strachey, who acted as Finance Member.
[4] 23 June.

of the civil establishments and the stoppage of public works.' He was convinced that the provincialization of certain revenues and heads of expenditure would lead to economy, increase provincial responsibility and avoid much administrative difficulty. Above all, he thought that it would enable the rulers of the country gradually to institute in various parts of the Empire something in the shape of self-government, and that it would eventually lead to the larger association of Indians in the conduct of public affairs.

The chief object of Mayo's proposal was the transfer of certain administrative services to the provinces, with fixed assignments of revenue in order to meet those charges. The departments thus handed over were jails, police, education, registration, medical services, printing, roads, civil buildings, and miscellaneous public improvements. Evidently they were services essentially of a local character, and the provincial Governments could be legitimately expected to take a special interest in their upkeep. But they were also spending departments, and the revenues realized from them were small as compared with the expenditure incurred in maintaining them. The central Government were unable to give the provincial Governments the whole grant hitherto made for those services, viz. £50,019,512. In order to relieve the imperial exchequer, the sum of £350,000 was deducted out of it and the rest was distributed among the various provincial Governments. The deficiency was to be met either by economy or by provincial taxation.

The scheme was sent to the provinces for opinion. The Government of the North-Western Provinces hailed the scheme 'with hope and confidence'.[1] Madras also accepted the proposal, but hoped that more departments would be transferred and substantial revenues assigned to the provinces.[2] The Government of the Central Provinces suggested that some revenue of an elastic character, such as that from excise or forests, might be handed over to the local Governments, as otherwise it would be difficult to find funds in the provinces.[3] The same Government also proposed that the whole provincial revenue and expenditure might be transferred to them. Bombay expressed itself strongly against fresh local taxation. That presidency was then in severe straits owing to the sudden fall in the price of cotton. The Governor of Bombay recommended a full-fledged federal system of finance as the best solution. In case of necessity, the central Government

[1] Letter, 15 September 1870.

[2] Just before the Resolution was issued, the Government of Madras had made certain 'overtures' for a financial arrangement (letter, 27 September 1870), but the Government of India's reply (19 October 1870) upset the Madras authorities so much that they wrote (8 November 1870) that they 'cannot disguise from themselves that they have found a spirit of distrust and a spirit of inquisition where they hoped to obtain confidence and independence', and that they had 'reluctantly arrived at the conclusion that it is not practicable, under present circumstances, to come to a harmonious adjustment of opinions and interests with the Government of India'.

[3] Letter, 27 September 1870.

might take the whole revenue of India, but normally, he said, local revenues should be devoted to local requirements.

§2 *The Resolutions of 1870 and 1871*

After ascertaining the views of the provincial Governments, and after further discussion in the Council, the Government of India, on 14 December 1870, published their Resolution No 334, which has since become famous It contained the details of the proposed system The assignments (total £4,688,711) were apportioned among the provinces as follows

	£		£
Oudh	206,948	N -W Provinces	640,792
Central Provinces	261,263	Punjab	516,221
Burma	275,332	Madras	739,488
Bengal	1,168,592	Bombay	880,075

The Resolution definitely laid down[1] that 'unless some fiscal misfortune, such as heavy loss in the opium revenue or national disaster such as war or severe famine occurs, the Governor-General in Council will maintain for the future the assignments for "Provincial Services" at the amounts now fixed', and that 'they will not in any case be reduced without previous consultation with the Governments' The provincial Governments were required to prepare their own local budgets on the basis of these assignments and to distribute the assignments between the several services If any savings were affected, they were to remain with the provincial Governments and were not to be appropriated by the central Government The annual budgets were to be published in the local *Gazettes* for general information and a financial exposition was to be made before the local Legislative Council

Some restrictions were, however, imposed upon the new financial powers of the local Governments Without the previous sanction of the Government of India no new appointment was to be created with a salary of more than Rs 250 a month, no addition was to be made to the salary of any officer whose pay and allowances exceeded Rs 250 a month, no classes or grades of officers were to be abolished, and the pay or grade of no class of officers was to be raised Nor were additions to be made to the pay or allowances of any individual or class of officers that would lead to an increase in the emoluments of any public servant, doing duty in the same province, whose pay or allowance was charged to the Government of India The supreme Government also retained power to forbid alterations in rates of pay or allowances

[1] Par 17.

which would produce inconvenience in other provinces. No moneys were to be removed from the public treasuries for investments. 'No services now rendered to other departments at the charge of the departments made over to the control of the local Governments are to be diminished, and no services now rendered to these departments at the charge of other departments are to be increased.'

On 20 March 1871 the Government issued another Resolution transferring additional services to the provincial Governments, namely (1) petty construction and repair of buildings in the civil departments (with some exceptions), (2) medical services, comprising salaries and allowances of medical officers of medical colleges, central jails and other minor items. Other alterations were also made in the assignments as fixed by the Resolution of December 1870 [1] A special donation of £200,000 was made to the provinces in order that they 'may be able to inaugurate the plan successfully and to have as it were a fair start' The actual resources thus handed over to the provincial Governments for the year 1871-2 are given in the following table [2]

PROVINCIAL RESOURCES IN 1870 1

Provinces	Total assign ments	Receipts surren dered	Total resources
	£	£	£
Madras	752,300	81,800	834,100
Bombay	901,200	55,300	956,500
Bengal	1,197,900	264,800	1,462,700
N -W Provinces	635,000	110,000	745,000
Central Provinces	269,600	24,000	293,600
Punjab	528,800	67,400	596,200
Burma	276,500	28,600	305,100
Oudh	211,300	14,700	226,000

[1] Resolution (Finance) No 1659 of 20 March 1871 Among the alterations was the retransfer of the Calcutta University from the provincial to the imperial budget (Letter from the Government of India, 21 March 1871)

[2] Drawn up from Resolution 1660 of 20 March 1871, and from the Financial Statement, 1871-2

§3 *The Provincial Budget*

Thus a separate budget was formed for each province, and the services handed over ceased to be mentioned in the imperial budget. The disappearance of the transferred subjects from the central budget created misgiving in the minds of some people, and in 1873 the provincial budgets were appended to the imperial budget [1] Further, the nature and size of assignments varied from year to year according to the state of imperial finances.

One of the underlying principles of the Resolution of 1870 was to give the provincial legislatures, where such existed, some real responsibility in regard to provincial budgets Paragraph 19 made clear provision for this 'Each local Government will publish its own provincial service estimates and accounts in the local *Gazette*, together with a financial exposition (which should, where possible, be made before the local Legislative Council) analogous to that annually made in the Legislative Council of the Governor-General' Had this provision been given effect to, there would have been an early growth of financial responsibility in the provinces But it was soon realized that such a procedure contravened s 38 of the Indian Councils Act of 1861 The sanction of the Council was only required for levying new taxes, and there was no point in presenting a budget to the Council if it could not be discussed by it However, the Government of Madras boldly suggested that the provincial budgets should form a schedule to an Appropriation Bill and that its contents must be voted section by section, as in the British Parliament [2] The Advocate-General (John D Mayne) pointed out that such a procedure would paralyse the whole executive and make the Legislative Council sovereign But, nothing daunted, Lord Napier held firmly to his opinion The Government of India were shocked by the proposal and did not approve of it [3] The Madras Government, as usual, appealed to the Secretary of State, but that was of no avail [4] 'Such a mode of procedure', wrote the Secretary of State, 'is only applicable in a representative assembly, which has full powers of control over the executive, and such powers Parliament has advisedly withheld from the Legislative Councils of India' The Government of Madras had to wait fully 50 years to obtain that authority, and perhaps it was right that it should be so

However, although the right of public discussion of the budget was not conceded, the provincial Governments obtained greater freedom for distributing their expenditure among the transferred heads so long as they did not exceed the total expenditure allowed them. The exact extent to which the right of reappropriation was

[1] Financial Statement, 18 March 1873, p 298
[2] Letter from Madras, No 147 of 18 April 1871
[3] Letter to Madras, 11 July 1871
[4] Letter from Madras, 19 September 1871 Dispatch from Secretary of State to the Government of India, 18 January 1872

permitted is not quite clear, for, when the Government of Madras proposed in 1874 to increase the grant for education by reducing that for roads, the Secretary of State interfered and maintained that there was 'an implied understanding' that no one of the grants should be wholly sacrificed to the others. However, it was not denied that the right of reappropriation existed.[1] Five years before this, provincial Governments did not possess even such powers as municipalities then possessed over their budgets. They were long in tribulation, but deliverance came in 1870.

§4 *Criticism of the Measure*

As usually happens in the case of moderate measures, the new reform was attacked from two opposite sides. Some opposed it from the central Government's point of view, others criticized it from the provincial side. The centrists averred that the measure was too radical, the provincialists complained that it was too conservative. The evils which the centrists predicted were that (1) it would lead to the disintegration of the powers of the central Government and to a separation of interests between central and local authorities, (2) the local Governments would become extravagant, and (3) 'improper and infamous' taxation would follow in the provinces to the great detriment of British dominion in India. Those who advocated provincial claims pointed out on the other hand that (1) the assignments were inelastic and were unequally distributed, (2) the provincial Governments had no interest in improving the revenues, and (3) the restrictions imposed upon the provinces were too hard and inconvenient. Therefore they advocated a more thorough-going system.

The chief provincialist opposition came from Madras. Not only non-officials like J. B. Norton, but responsible officers like Sir Alexander Arbuthnot regarded the measure as inadequate. Norton held firmly to the Madras plan of federal finance. 'The language of sound decentralization', said he, 'must be, "give me so much and you keep all the rest".' This view was supported by the newspaper *Hindu Patriot* which wrote: 'Our plan of decentralization is this—we would separate all the imperial charges from the local budgets and exact a percentage as a sort of tribute from the local Governments for the defrayal of imperial expenditure. This is to become a first charge upon local revenue.' It is rather remarkable to note that Arbuthnot also held the same view. In his opinion, 'instead of determining what sum each province is to be at liberty to expend on the provincial administration, the Government of India should determine what sum each province should contribute for imperial purposes and should leave the remainder for provincial purposes'.[2] Macfadyen sarcastically

[1] See Strachey, op. cit., pp. 152-3.
[2] Proceedings of the Madras Legislative Council, 17 February 1871.

remarked 'Decentralization as understood by the Government of India is rather like a one-sided application of the scriptural injunction, 'Bear ye one another's burdens.' 'Just so,' said the Government of India 'Here, Madras, Bombay, etc., bear this burden, we are tired of it.'

However, the Madras leaders recognized that a good beginning had been made Norton hailed the measure, although it fell far short of his expectations, for he believed that it contained the 'seed and germs of what in due season will ripen into the best and richest fruits' Rama Ayyangar thought that the proper adjustment of the relative positions and functions of the subordinate and supreme Governments was one of the most difficult of administrative problems and therefore he was not disappointed that no sweeping change had been made, and that it was sought to proceed step by step

The centrist attack was based on the traditional policy of centralization The permanent staff of the Government of India have always been cautious and have often been inclined to look with suspicion on any measure which delegated power to provincial Governments Many of the stalwarts who hitherto opposed the policy, including Lord Lawrence and Sir Charles J Wingfield, spoke to the Finance Committee of the House of Commons on the colossal evils which were going to result from the decentralization policy Lord Mayo, though the head of the Government, had himself to face much opposition even from his own secretariat [1] But these cautious statesmen and financiers later admitted that the measure had not produced the ills that they feared it would They found that it resulted in the establishment of more harmonious relations with the provincial Governments and thereby made the position of the central Government really stronger than before; that it produced no extravagance in the provinces, but rather led to economy, and that no injurious measures of taxation were inaugurated in the provinces consequent upon this arrangement The supreme power of the central Government was in short not weakened According to John Strachey, Lord Mayo hated the very term 'decentralization' [2] Strachey adds 'A more inappropriate term could hardly be found It seems to suggest that the Government of India has given up its own power of control over the imperial revenue and expenditure It has done nothing of the kind The powers of the supreme Government have been increased rather than diminished An unreal and illusory authority has been abandoned and in its place a real power of control has been substituted . The end to be aimed at by the Government of India is to divest itself of all detailed concern with those items of expenditure which pertain to branches of administration, the

[1] See Sir William Hunter, *Life of Mayo*, vol II, p 76.

[2] *Legislative Council Proceedings* (1871), p 169, also Mayo's speech, ibid, pp 290-1 Mayo seems to have avoided the term even in personal conversation.

details of which it cannot in fact control.'[1] Thus all the vexatious interference of olden days had to go.

§5. *Inequalities in Grants*

The loudest complaint made by the provinces at the time was about the unequal distribution of the assignments among the various provinces The allotments were not based on actual or future needs of the province or with any regard to amounts contributed by them, but (in the words of Mayo himself), 'in the proportion which the several net provincial grants bear to the whole net grant' which of course meant that it was divided simply with reference to the *status quo* which had been reached by the unsatisfactory methods of apportionment used in the days of centralization They are called 'unsatisfactory methods' because, when the Government of India retained the whole purse, the distribution of funds was not done on any equitable basis, but according to the pressure of the demand and the clamour attending it [2] The result was that those provinces which contributed most to the revenues received least to spend When the assignments were divided on that basis in 1870, the injustice of the division became patent to all The Governments which were favoured before were still favoured, and those that suffered before had still to bear their undue burdens with patience Lord Napier, when acting as Viceroy in 1872 (pending the arrival of Lord Northbrook), wrote a vigorous Minute setting forth the inequalities of the apportionment.[3] Bombay, the Central Provinces, Burma and the Punjab were favoured, Madras and the North-Western Provinces were neglected Bombay and the North-Western Provinces, he pointed out, had almost equal revenue, but Bombay got £901,200, while the North-Western Provinces got only £635,000 The revenue of Madras exceeded that of Bombay by £1,324,531 and Madras had also a much larger population, but the assignment to Madras was £148,900 less than that of Bombay Bengal, Madras and the North-Western Provinces got £2 per head of population while Bombay received £6 per head, and Burma £11 He pointed out that Madras would have immediately remonstrated, had it not been for the thought that 'it was not right to raise complaints at the very inception of the reform'. Lord Napier therefore recommended a more equitable basis for distribution He suggested that in course of time, all provinces might be given 15 per cent of their gross revenue, but this suggestion was not given effect to

Temple and Strachey admitted that there was some inequality, but could not agree with Lord Napier that it was possible to

[1] *Legislative Council Proceedings* (1871), p. 169

[2] See ch ix, §2 Also *Report of the Royal Commission on Indian Expenditure*, vol III, p 217

[3] Minute, 3 May 1872 The Madras Government complained in a circular letter, No. 2019 of 17 August 1873, against 'perpetuating pre-existing grievances'.

rectify it easily 'We must take existing things for our basis,' wrote Temple [1] We must admit some degree of inequality in a matter where equality is impossible' Strachey went further and questioned the view that the amount of revenue was the right basis for distribution of expenditure in a country like India 'The Empire must be treated as a whole,' he said, 'not as a collection of separate and semi-independent states' [2] Some of the new provinces could not be maintained by their own revenues They have naturally to subsist partly on the income from the better developed parts of the Empire [3] 'Actual requirements and actual means of meeting them can alone determine the amount which the Government of India can properly grant'

The Government of India held that it was not possible to make any system of distribution absolutely equitable Lord Mayo said

> It is quite possible that as heretofore certain inequalities may exist as between province and province, but we feel that, had we entered on a minute inquiry as to the precise amount which should be given to each Government in proportion to their revenue and population or in respect to the area or requirements of each province, such an inquiry must last for a considerable time, and we were not at all convinced that, even if such an inquiry had been entered upon, the result would be more satisfactory than the basis which we adopted, namely the grant for the past year These grants have ever been made on the consideration only of our power to give and of the wants of each province, and I believe that any more minute inquiry than that would have only led to failure.[4]

All this did not convince the provincial Governments, because they found their purses becoming leaner The fact is that these grants had been made previously according to the actual demands from the provinces Indeed it was admitted that backward parts of India had to be supported from the revenue of the more developed areas, but such a burden should fall equitably on all the developed parts and not be borne by some of them only There was no reason why the peaceable peasant proprietors of Madras and the North-Western Provinces should bear the brunt of imperial expenditure, and yet this state of things continued for another 50 years.[5]

§6 *Desire for Extension*

Most provincial Governments suggested the transfer of more services, at least those actually administered by them Madras wanted land revenue, excise and forests, as also law and justice, ecclesiastical and medical departments Bengal and other provinces

[1] Minute, 9 July 1872 [2] Minute, 27 July 1872

[3] Lord Lawrence said before the Parliamentary Select Committee that 'the surplus of some provinces must make up for a deficit in other provinces' Q 4539 (1873)

[4] *Legislative Council Proceedings* (1871), p 517 [5] See below

asked for a similar transfer, and the Central Provinces this time asked for a completely federal arrangement. But, of course, they were expecting too much. For the time being, the Government of India were not prepared to go any further.[1]

But the position was getting incongruous. The services transferred were mostly of the kind called nation-building. The country needed more schools, roads and hospitals; and expenditure on these was bound to expand, especially as India's economic life was then undergoing a rapid change.[2] But the assignments made to the provinces for these services were altogether insufficient. Even the favoured province, Bombay, considered its allotment 'most inadequate'.[3] The new system held out no prospect of a province profiting by the improvement in its revenue. Whether its revenue increased or diminished, a province would still receive the same fixed allotments, and so it had no incentive to foster its revenues. Sir William Muir, Lieut.-Governor of the North-Western Provinces, wrote: 'It [the fixity of assignments] practically declared that whatever may be the increase in the imperial revenue or the prosperity of the imperial finances, the educational department, that which confers the highest moral and social good on the country, is to hope for no enlargement of its means from that source.'[4]

The remedy proposed was the transfer of some important sources of revenue to provincial management. This was the desire of all the provincial Governments. Nor did Lord Mayo regard this as unreasonable. During the budget debate of 1871, he said:

> At some future time, it may be thought desirable to apportion certain heads of revenue to local authority, reducing proportionately their grants, but I do firmly believe that if on the present occasion we had suggested anything of the kind, the result would have been failure, and it is certain that Her Majesty's Government would very properly have required a much longer time than they have taken to consider a change of so extensive and fundamental a nature.[5]

§7. *Increase of Provincial Taxation*

The opponents of the policy inveighed against the injurious local taxation that resulted from the new power given to the local Governments. Before the Select Committee on East India Finance, Lord Lawrence, Sir Charles J. Wingfield, Kazi Shahbudin and others spoke ominously of the increased provincial taxation and its probable consequences. Wingfield said that 'the local Governments are under a direct motive to screw as much as possible out of the people'.[6] The departments made over to the

[1] Mayo's Minute, 18 March 1871.
[2] Temple's Financial Statement, 1869-70.
[3] Letter, 28 August 1872.
[4] Letter to the Government of India, 25 December 1872.
[5] *Legislative Council Proceedings* (1871), p. 287.
[6] *Report of the Select Committee* (1873), pp. 192-4.

local Governments were all such as call for increase of expenditure, and therefore he found a great danger in the new system. 'I cannot imagine,' he said, 'anything more calculated to disturb the public mind and make the people uncertain as to what the future may produce than the principle of novel and incessant taxation at the mere discretionary will of the Government; because the legislature after all is composed of Government nominees and mainly of Government servants.'[1]

However, in practice, the measure did not result in such evil consequences As Strachey, Ellis and others repeatedly pointed out in the Legislative Council and elsewhere, the measure of 1870 did not give provincial Governments any taxation powers which they did not possess before Local taxation had already been imposed and had made some progress before 1870 Some of these taxes were imposed about the same time as that measure, but that was a mere coincidence Only in the North-Western Provinces, Oudh, Bombay and the Punjab were any fresh taxes levied as a consequence of the decentralization scheme of 1870

In the North-Western Provinces, Oudh and the Punjab, a cess of about 5 per cent on the land revenue was levied in 1871 for meeting the deficiency in the assignments, cesses on land revenue were raised in the same year in Bengal and Madras, and in Bombay a tax on the non-agricultural rural population was levied But these latter levies cannot be definitely attributed to the decentralization measure of 1870, although there was considerable difference of opinion on the subject among the witnesses who appeared before the Parliamentary Select Committee in 1872 and 1873. Altogether a sum of about Rs. 5 lakhs was raised It has been claimed that as the income-tax was abolished about the same time, this did not mean any additional burden, but while the income-tax fell on the trading classes, the cesses fell on agriculturists who were comparatively poor A well-known saying of Sir George Campbell (Governor of Bengal) was made in this connexion 'The Government of India taxed the rich and we taxed the poor, and between us we taxed everyone.'[2]

§8 *Mayo's Final Estimate*

On 31 March 1871, Lord Mayo made a masterly survey of financial decentralization and other measures carried out during his regime. He examined the criticism that India was over-taxed On the authority of Grant Duff, he estimated that, while the United Kingdom had an annual income of £800,000,000 and a *per capita* income of £30 per annum, British India with a total income of £300,000,000 had a *per capita* income of £2. Mayo himself made

[1] In 1871, Kazi Shahbudin (Qq 1846-8 et seq.); in 1872, Da Costa, N Furdunjee and Hutton spoke against the measure

[2] *Legislative Council Proceedings*, 27 March 1871, p 406

some calculations of the incidence of taxation in the different countries and came to the conclusion that while British Indians paid only 1*s.* 10*d.* per head per annum, Russians paid 12*s* 2*d.*, Spaniards 18*s.* 5*d.*, Austrians 19*s.* 7*d* , and Italians 17*s.* It must be noted that he excluded land revenue and opium excise because the one was regarded as rent due to the Government as the chief proprietor of land, and the other was shifted on to the foreigner. From a total revenue of about £50,000,000 he took only £14¼ million as taxation and the population having been estimated at 150 millions, he came to the conclusion that the burden of taxation in India came to only 1*s* 10*d.* per head As Massey pointed out in 1868, it was only a 'war of words to say that land revenue was rent But, even if land revenue had been taken into account, the *per capita* burden of taxation would have come to only 4*s* 8*d.*, which was lower than the tax burden in most civilized countries at the time.

Mayo, however, agreed that taxation must not be too heavy, because the rulers were appointed by a sovereign who ruled in a distant land, and a 'heavy responsibility devolved upon those rulers to exercise more circumspection than those who derive their powers from popular representation'. He added 'The people of this country never had the power of self-taxation and I am not at all clear that if they had, they would have made a proper use of it But for good administration in India vast funds must be provided, great expenditure must be incurred, and government must be carried on with much strength and some splendour'[1] 'We have secured the imperial revenue from the main elements of uncertainty and if we follow the dictates of prudence, I am sanguine enough to believe that that normal increase of resources, which the growing prosperity of the country must yield may be made and can be made to suffice for future imperial wants' He expected there would soon be not only a balance between income and expenditure but a small surplus, for 'surplus means sunshine, certainty, reduction of burdens and extension of improvement works. Deficit means clouds, uncertainty, hesitation, increase of taxation and the stoppage of much good and useful work Be it large or be it small, these evils must always to a greater or less extent occur' In regard to public criticism of the budget, he said 'Criticize severely every part of the expenditure; discuss it, offer opinions about it; do not advocate petty parings and savings in small details, but devote your criticisms to general expenditure and to the large establishments, for there it is that safety is to be found.'

Mayo fully realized the value of the work he had done Concluding his speech in the Council, he said

When all these mis-statements and this abuse and odium are forgotten; when all the malice and uncharitableness that has been

[1] *Legislative Council Proceedings* (1871), p. 436.

expressed towards men who have been honestly doing their duty has passed into oblivion, the future historian of India will be forced to record that, in eighteen short months, the finances of a mighty empire were rescued from a state of chronic deficit and certain danger. That in six months, not without great sacrifices and much risk, equilibrium between revenue and expenditure was obtained; that in the following year substantial surplus was shown in the imperial accounts. That all this was effected not by swelling the burdens of the masses, not by cheese-paring and cutting down the pay and allowances of the humbler servants of Government, not by wild and temporary reductions which so impair efficiency that they ultimately lead to greatly increased expenditure, but by increasing for one year the burden of taxation four-fifths of which fell only on the well-to-do part of the population and from which the very poor escaped. . . He must also record that this end was also attained by a calm and critical search into our expenditure and by great reduction of outlay, and that future security was gained by associating with ourselves in financial responsibility a large amount of local authority and local interest. . . He will have to record that during this year those great works of irrigation and preparations for the commencement of a new system of railways have been pushed vigorously on, and that in many ways, . . our military strength has been materially increased. New and improved arms for the army have been provided, large and costly defences have been added to our principal harbour and in many other ways our defensive strength and that of our military marine have been increased. No other story than this can be told except at the expense of truth, and be it now or hereafter, wherever it is really known and impartially discussed, I am certain we shall receive that full meed of public approval which is the highest reward of public service.[1]

These words turned out to be the swan-song of that illustrious career. Mayo soon met his death in the Andamans under tragic circumstances. During the short period of three years he achieved more than most Viceroys did in five years. He was one of the ablest pro-consuls that Britain sent to India; in some respects he was the greatest.

§9 *Improvement of the Finances*

That the words of Mayo, quoted above, were not vainglorious is clear from the official statistics of the time. Not only was a stable financial equilibrium achieved after many years of dislocation, but the finances of India were placed on a firm and secure footing for the first time after the days of Lord William Bentinck. In the 16 years from 1853-4 to 1868-9, there had been deficits in all except two (1862-3 and 1865-6). For the three years, 1866-7 to 1868-9, the accumulated deficit came to £6·2 millions. But in 1869, the tide turned; and for four consecutive years (1869-70 to

[1] *Legislative Council Proceedings* (1871), pp. 443-4.

1872-3) there was an annual surplus which amounted to a total of £6 millions, made up as follows :

Year	Revenue	Expenditure	Surplus
	£	£	£
1869-70	50,901,081	50,782,452	118,629
1870-1	51,413,686	49,930,695	1,482,991
1871-2	50,109,093	46,984,915	3,124,178
1872-3	50,220,360	48,456,482	1,763,878
Total	..	...	6,489,676

This result was due as much to retrenchment as to the proper husbanding of revenue The total expenditure stood at £52 millions in 1868-9, but was pushed down to £46·9 millions by 1871-2 The reduction of expenditure is noteworthy in two items, defence and ordinary public works Under defence the average of 1867-8 to 1869-70 was £16·2 millions, but by 1872-3 it was brought down to £15·6 millions The expenditure on public works (ordinary) which stood at £6 6 millions in 1868-9 was reduced to £3·8 millions in 1870-1

An important reason for the financial improvement was the increase of the opium revenue which for four years largely exceeded the estimates. The Chinese demand for Indian opium was well sustained, but the estimates were framed on cautious lines. The income-tax revenue also helped in a time of stringency, but after the work was done, it went on diminishing, owing chiefly to the raising of the taxable minimum [1]

On an examination of the budgets of twelve years, 1861 to 1872, Sir Richard Temple arrived at the tentative conclusion that a series of six years constituted a cycle in Indian finance and that the Government's income and ordinary expenditure would balance during such a series of years. In the period 1860-6, three years ended in deficit and three years in surplus; similarly also in the period 1866-72. But subsequent experience did not quite confirm such a periodicity.

Besides meeting the ordinary expenditure of the state, a large number of public works were carried out during the period, and for this purpose a new system of borrowing was initiated. From 1869-70 to 1872-3, £13·9 millions was raised for capital works At the same time, in order to reduce the burden of ordinary public debt, a timely scheme of conversion was put through. While he

was away on leave in England (1868), Temple had consulted Gladstone in regard to the management of public debt and especially conversion operations.[1] The public debt of India then paid an interest of 5 per cent In 1870, the Finance Department sprang a surprise on the money market by the *Gazette* announcement that stockholders of certain loans would have their principal repaid unless they accepted a lower rate of interest. It was a 'psychological moment' for carrying out such an operation, because the budget position was strong, thanks to the income-tax, the cash balances in the treasuries had been increasing to comfortably high figures, and the political circumstances both of India and of Europe were favourable The fundholders were therefore virtually forced to accept 4 per cent Within five years, about £20 million out of the national debt was thus converted,[2] and the operation was a great success. It made the Government unpopular for the time, but eventually it greatly strengthened their financial position

Thanks to the improvement in the Government's financial position, the price of Government securities went up The 4 per cent stock (the 'rupee debt') which previously stood at 91, rose to 105 in 1873 During the same period, sterling securities also rose from 92 to 106 The cash balances in the treasuries increased from £10 millions in 1869 to about £22 millions in 1872 This prosperity was, however, short-lived, owing to a succession of famines after 1873

§10 *Success of Decentralization*

The principal objects of the decentralization measure of 1870 were (1) relief to the central finances, (2) economy, (3) greater harmony between the central Government and the provinces, and (4) association of the people's representatives in the financial administration of the country Mayo hoped that the new measure would 'afford opportunities for the development of self-government, for developing municipal institutions and for the association of natives and Europeans to a greater extent than heretofore in the administration of affairs' The Financial Statement of 1871 made pointed reference to the hope of the Government that the new measure 'will give the local Governments an additional interest in the study and enforcement of economy in expenditure, will afford them a just inducement to supplement their local receipts from time to time by methods either most acceptable to the people or least fraught with popular objection; will cause a more complete understanding between the executive authorities and the

[1] Temple, *The Story of My Life*, vol I, p 201 'He [Gladstone] was so good as to find time to explain to me the system of managing the national debt, especially the manner of effecting conversions for the reduction of interest, as I contemplated making some attempts of this kind on my return to India.'

[2] Temple, *Men and Events of My Time*, pp 363-4,

tax-paying classes respecting the development of fiscal resources; will teach the people to take a practical share in provincial finance and lead them up gradually towards a degree of local self-government'.

Of the four objects above mentioned the first three were more or less fulfilled before long. The improvement in the central Government's finances has just been dealt with. As was repeatedly admitted by Temple and Strachey, that improvement would not have been possible had it not been for the transfer of the expanding departments from central to provincial management. A great economy resulted from decentralization The tendency to growth of expenditure in the transferred heads was checked, except in education and medical aid From 1863 to 1868, the expenditure under the transferred heads rose from £5,112,000 to £6,080,000 Mayo brought it down to £5,197,000 and in 1875-6 it stood at £5,305,000

That the relations between the central Government and the provinces became more and more harmonious is evident from all indications Early in 1873 a circular was addressed to the provincial Governments inquiring about the results of decentralization and the replies were 'unanimously and strongly' in favour of the system Sir George Campbell had been previously doubtful about the results of decentralization, but after working the new system as Governor of Bengal, he became an ardent advocate In 1872, he wrote that 'there had been an enormous reduction in sums allowed for civil public works and a very large reduction in the assignments for police' Yet the previous scale of efficiency in regard to public works had been maintained In another letter, he made an acute analysis of all the transferred departments, and showed how economy had been effected all round In the department of jails, many new buildings had been constructed, and much outlay had been incurred; yet the jail expenditure that year (1872) was below the budget estimate of the year immediately preceding decentralization. In the public works department, 'economy had been practised so successfully as to lead to large savings' He then proceeded to deal with the general results achieved 'There has been very much less friction in the administration of the provincial Governments than before, the local Government has had very much less occasion to trouble the supreme Government with long references and reports, while the supreme Government has been much less often put to the pain of having to negative measures wise and desirable in themselves merely on the ground of expense The hands of the local Government have been much strengthened.' He fully believed that 'the localization of responsibility and power has been and will be productive of much economy and efficiency'. Sir William Muir, Lieut.-Governor of the North-Western Provinces, also struck the same note of satisfaction in his dispatch 'It has given the local Governments', he wrote, 'a direct and vivid interest to combine economy and efficiency'

Even Madras, which originally had a grievance against the new system, subsequently changed its mind about its value. In 1872, that Government wrote to Calcutta to the effect that the system had been working ' very satisfactorily '. ' The system has already enabled the local Government to make provision for much-needed works, to an extent which under the previous system would have been impossible The rule under which the unexpended balances do not lapse at the end of the year is most valuable.'[1] Again, in 1873, the Madras Government wrote, commending the system as ' promoting harmony, economy and efficiency of administration '. It still grumbled about the inequality of the grants and remarked that they bore no relation to the area or population of each province or to the contribution made by each to the imperial revenue.[2]

As for the fourth object, namely, association of the people's representatives in the work of administration—which is decentralization in the real sense—it remained only a pious wish for a long time, except in the municipal sphere After 1880, the administration of local funds came more and more under popular control, but in the provincial sphere it was long before any real decentralization took place A beginning was made in 1892, but no substantial step was taken till 1920

[1] Telegram, 21 March 1872 [2] Letter, 9 January 1873

CHAPTER XIV

GROWTH OF LOCAL FINANCE, 1860-73

§1. *Origin of Municipal and Local Funds*

LOCAL finance has a much longer history than provincial; long before provincial finances were separated from the central fisc, local funds were distinctly marked off In fact, local finance, in some form, always existed in the country, and the Act of 1833 which unified the finances of the three presidencies did not touch those local funds The presidency cities continued to have the privileges they enjoyed under royal charter, and they never felt the force of centralization which pressed on the provincial Governments Of course, they had only very limited financial activities, but those were largely controlled by themselves

The subject of local finance is too large to be treated in detail in a work of this kind However, an outline of the development will be given in order to enable the reader to view Indian finance as a whole at different periods Provision for local taxation already existed, but it was not much utilized before 1860 However, in the presidency towns of Calcutta, Madras and Bombay, corporate life of the English type grew from early days. The Corporation of Madras was founded by Elihu Yale in 1687,[1] it consisted of a Mayor, aldermen and burgesses, and had authority to levy taxes for improving the conservancy of the city [2] In 1726, mayors' courts were established by royal charter in the three presidency towns They were invested with taxing powers by the Regulating Act of 1773, and these powers were later amplified by various statutes. By an Act of 1856, a body corporate was established for these three towns, each composed of three salaried municipal commissioners. They were also given powers of collecting taxes and executing works of conservancy

Early attempts were made to create municipal life in other towns also An Act of 1842 authorized 'the inhabitants of any place of public resort . . to make better provision for purposes connected with public health and convenience', but this was ineffective and was superseded by Act XXVI of 1850, which authorized the establishment of municipal committees charged with making, repairing, cleaning, lighting or watching roads, drains or tanks and the prevention of nuisances. It was a permissive Act and was made use of only in the North-Western

[1] Elihu Yale was Governor of Madras (1687-92) and was later the founder of the Yale University.

[2] Mrs Penny, *History of Fort St. George* (1900), p. 110.

Provinces and Bombay Under this Act, *octroi* duties soon became common in northern India The Chowkidari Act of 1856 authorized the District Magistrate to nominate a panchayat with power to raise taxes and spend the proceeds on the police and on the sanitation and lighting of the towns. This Act was taken advantage of chiefly in Bengal and in the North-Western Provinces.

The Income-Tax Act of 1860 contained a provision for the utilization of a fourth of the revenue from incomes above Rs. 500 for reproductive public works Wilson's original proposal was to utilize that amount for 'local purposes', and in this connexion he cited the example of the property tax levied by the states in the U S A But at the instance of Sir Barnes Peacock, the words 'reproductive public works' were substituted However, this part of the tax-proceeds was credited to a separate account, and was to be appropriated to the different provincial Governments of India, to be applied under their direction for the construction of roads, canals or other reproductive public works which had been duly sanctioned [1] The basis of appropriation was the actual revenue accruing from each province or administration It was understood that the municipalities would be consulted on the works to be executed from this fund [2]

In spite of such endeavours, several towns in India became dens of dirt and disease, and corporate life was slow to develop Laing was a great believer in local self-government, and although his ambitious schemes for increasing the financial powers of the provincial Governments failed, his attempts at enlarging municipal action were rather successful 'It is of the first importance,' he said, 'to break through the habit of keeping everything in dependence upon Calcutta, and to teach people not to look to the Government for things which they can do far better themselves' [3] In 1861 some roads were marked off as local (district) roads, and were thenceforth to be maintained from local funds This led to the District Road Cess Act of 1866 (Madras) and similar Acts in other provinces. Trevelyan also gave great attention to the subject In his Financial Statement or 1864-5, he said

> It is impossible that all the wants of this great continent, according to the continually rising standard of the public requirements, can be provided for out of the imperial revenue Local agency and local resources, which are as multifarious as they are inexhaustible must be increasingly drawn upon, and the imperial expenditure must be gradually confined to such objects as are of common interest to the whole of India . . It is time that the people of this country should cease to be helplessly dependent upon the Government, and should learn, by the example and aid of their English fellow-subjects, to raise and spend their own money in maintaining the roads,

[1] S 193 [2] Niyogi, *The Indian Income Tax*, pp 31-2
[3] Financial Statement, 1862-3

improving the sanitary state of the towns, assisting education, and promoting every other subject of local interest.[1]

In 1863, provincial Governments were directed to draw up their own annual Local Fund estimates on the lines of the budget estimate of the Government of India The object of this was not to interfere with the freedom of local Governments, but to obtain periodically accurate information about the progress of such funds Various minor heads of revenue were also transferred by the Government of India to the local funds of the provinces, namely, tolls on the Nuddea river and Calcutta canals, tolls collected on ferries on imperial roads, receipts from travellers' bungalows, and *jalkar* or revenue derived from the fisheries in Bengal In Madras revenue from fisheries (excluding pearl and *chank* fisheries) and 10 per cent of the proceeds from the sale of escheated lands were transferred to local funds [2]

The sources of municipal revenue varied from province to province. In the North-Western Provinces and in the Punjab, the favourite mode was an *octroi* or town duty, formerly levied by the Government but now by the municipality The town duties which early in the century hampered trade had been abolished between 1833 and 1840, the new municipal town duties soon became numerous and burdensome In other parts of the country, municipal receipts came chiefly from educational and charitable endowments, tolls on roads, ferries and canals, cantonment and bazaar funds, port funds, and proceeds of houses and lands transferred to municipal bodies In rural areas, however, the progress of such corporate enterprise and taxation was slow. The village community had still certain common funds, but in most parts of the country, there were no panchayats to administer them

§2 *The Resolution of 1864*

The disclosures made by the Sanitary Commission in 1863, about the appalling state of Indian towns, served as a great incentive to the increase of municipal activity in India In the following year, the Government published a very important resolution on the subject 'The people of this country', so runs the Resolution, 'are perfectly capable of administering their own local affairs. The municipal feeling is deeply rooted in them . Holding the position we do in India, every view of duty and policy should induce us to leave as much as possible of the business of the country to be done by the people, by means of funds raised by themselves, and to confine ourselves to doing those things which must be done by the Government, and to influencing and directing in a general way all the movements of the social machine '[3] The

[1] Financial Statement, 7 April 1864, p 148 [2] ibid.
[3] *Gazette of India Extraordinary*, 14 September 1864.

new policy was thus immediately meant to relieve the treasury, but it had also other general purposes in view.

At the same time provision was also made for the supply of funds for municipal expenditure. In view of the abolition of income-tax, it was proposed to transfer to local funds a portion of the charge which was at that time included in the imperial budget, chiefly under municipal police. Already the Government of Bengal had authorized the municipal towns to levy a general rate upon the annual value of houses, not exceeding 7½ per cent., chiefly for the purpose of maintaining the local police; and in the presidency towns of Calcutta, Madras and Bombay, a portion of the cost of the police force had been thrown upon local resources. It was decided that in future, the cost of the municipal police ought invariably to be the first charge on municipal funds. The mode of levying taxes was left to be decided by the municipal authorities, but the examples mentioned were a rate upon the annual value of houses, buildings and lands, a licence-tax on trades and professions, and a tax on carriages and horses. Town duties were also suggested for some parts of the country, but the duties just then levied in northern India affected too many articles; in a district in Oudh as many as 197 articles were subject to town duties. The Resolution recommended that the duty should be confined to a few articles of local consumption such as ghee, firewood, fruits, vegetables, fowls, eggs and animals for slaughter.[1]

Soon after this, Municipal Acts were passed in Bombay, Madras and Bengal, and municipal committees were set up in a good number of places. Municipal taxation also increased all over India. The Corporation of Calcutta raised a successful loan in 1866. In the Punjab, the North-Western Provinces, the Central Provinces and British Burma, nearly all towns had been organized into municipalities and were charged with the expenditure for the police and essential works of conservancy and general improvement.[2]

§3 *Progress of Local Finance (1865-73)*

From the first, the Government were nervous about directly raising local taxation. It was feared that fresh taxes would create discontent. That was why from 1863 the Government encouraged the appointment of local committees for the raising and administration of local funds. The support of these committees was regarded as most valuable in making local taxation popular. Mayo gave a great deal of attention to the work of these committees, and when someone reminded him that some of them never met, he replied: 'I would rather appoint a committee that never met than have no committee at all. What we want is to recognize the principle that we wish to associate with ourselves, wherever it is

[1] Finance Department Resolution, 31 August 1864.
[2] Trevelyan's Budget Statement, 1865-6.

possible, the natives of this country for this excellent object.'[1] Mayo also made provision for granting loans to municipalities for purposes of local improvement. He agreed that local taxation might be unpopular at first; but, when it was known 'that the whole of these new imposts are to be spent on objects which will contribute to the health, wealth and comfort of the people, they will gradually discover that the new money they pay is spent for their special benefit'. 'I cannot but think', he added, 'that when a man sees that the road is brought to his door, that his family are protected from those outbursts of fever and other diseases which are unfortunately so prevalent; that when he sees the school child growing into an educated man, he will begin to think how and for what these levies are made and will understand the reason why'[2]

Till 1870, the chief motive for raising local taxation and for setting up local committees was the relief to the imperial treasury, which had been hard pressed by provincial Governments for funds to be spent for local needs, and the funds raised by local taxation were administered directly by the Government in most parts of the country. Even where local committees were in existence their financial powers were very limited. Mayo enunciated a new policy in his resolution of 1870. He wanted to provide 'opportunities for the development of self-government, for strengthening municipal institutions, and for the association of natives and Europeans to a greater extent than hitherto in the administration of affairs'. It was found difficult to carry out this object in the provincial sphere, but greater success was attained in the local. From 1860, considerable progress was made in local self-government. Local rates and cesses increased, and in some provinces a portion of the revenues raised was entrusted to the management of committees. Municipalities also increased in number and usefulness. But the progress made varied from province to province. In provinces like Bombay the committees made great advance in resources and efficiency; but in most other provinces local finance continued to be managed by officials. As a resolution of 1881 puts it: 'The inequality [between provinces] sometimes produces a sense of injustice, the objects are often those, the advantage or local obligation of which the people are least able to understand'[3] In some provinces matters such as primary education and minor public works were under local management while in others they were left to the control of provincial Governments. Even more glaring was the fact that while heavy contributions were levied on municipalities for police, they had no share in police administration.

The fact is that no one was quite clear about the charges that should legitimately be laid on local resources. On the strength of

[1] *Legislative Council Proceedings* (1871), p. 294.
[2] Ibid., p. 519.
[3] Resolution, 30 September 1881, No. 3353 Parliamentary Paper C. 93 of 1883.

some tradition handed down from Mogul times, it was for long customary to levy cesses for the maintenance of the police. Even in 1852, according to Campbell, many towns in India paid their watchmen from the proceeds of a house-tax which varied from 2 annas to Rs 2 monthly on the better sort of houses and shops.[1] The incongruity of this arrangement was soon discovered in Madras In the course of the discussion on the Madras Local Boards Bill, Sir Alexander Arbuthnot, then Member of the Executive Council, said 'The protection of life and property is one of the first objects for which Government exists, and although I am aware that a different practice obtains in England and in some other countries, I cannot but think that to defray a considerable portion of the ordinary cost of police out of local funds is wrong in principle, illogical and indefensible'[2] Thus the Local Boards Act of 1871 did not contain provision for municipal expenditure on police But seven years later, a charge was again made on town funds for police, for another short spell Similarly, various other services, not definitely local, were met from local funds. The extent of this may be realized from the fact that in the Madras Presidency, local revenue was used for the training of teachers and medical practitioners, for the maintenance of dispensaries, and even for the construction of *cutcherries* (court-houses) in certain parts.[3] This was partly the reason why local self-government did not become popular for a long time in India

After 1870 local self-government developed in the different provinces under separate Acts It will be useful at this stage to give a brief account of local finance in the different provinces in about 1870

§4 *Progress in the Provinces*

In Madras, there were 47 municipalities in 1873, and their income, drawn chiefly from taxes on buildings, tolls, etc , and amounting to £192,044, was spent on police, education, medical aid and sanitation Steady progress was also made in rural taxation for local purposes Some of the local funds (e g village service fund) are of great antiquity Modern local finance dates from the establishment of the District Road Fund in 1854, first in South Arcot and subsequently in other districts In the same year, the rent of ferries and other minor local receipts, formerly credited to general revenue, were transferred to the local fund and the first Local Fund Report was issued in 1855-6. The income amounted to £10,000 In 1871, local boards were constituted in each of the 36 local fund circles into which the presidency was divided, and they were empowered to raise (1) a rate on the rent value of land, assessed at 1 anna in the rupee; (2) a house-tax

[1] G Campbell, *Modern India and its Government* (1852), pp 400-1
[2] *Madras Legislative Council Proceedings*, 1870.
[3] M. Venkatarangaiya, *Beginnings of Local Taxation*, pp 68-78.

varying from Rs. 5 to As. 4; and (3) tolls on animals and vehicles. In 1871, the income of these local boards amounted to £501,469. There were besides several separate local funds in existence, and as it may be of some interest, they are dealt with in an appendix

In Bombay, there were 213 district municipalities in 1873 with a total income of £535,544. Their chief source of income was *octroi* duties, supplemented by a house-rate, a wheel tax, liquor licences, town duties, market duties, water rate, tobacco duty and licence, *hulalcore* cess, police rate, lighting rate fees, fines, penalties, and miscellaneous receipts The Bombay Municipality was very active during the period, having spent £4,000,000 on works of improvement (including water supply) and conservancy Rural bodies did not progress so rapidly, and their total revenue was only £242,720 in 1871-2, and was drawn from a cess on land revenue levied since 1863 Fisheries all over the presidency paid a third of their produce, and this came to £4,178 in 1871-2 A tax on non-agricultural classes was levied in 1871, but was soon abandoned Other funds were : ferry fund, pound fund, staying bungalow fund, toll fund, esplanade fee fund, post fund, school fee fund, cotton improvement fund and hill station fund Their total income was £200,000 in 1871-2

In the Central Provinces, there were 56 municipalities in 1873 with a total income of £68,172, raised from *octroi* duties and a house-rate Rural funds also existed, and were raised by cesses on land They were a road fund, a village *chowkidari* fund, a school fund, a district *dak* (post) fund, and *patwari* fund Their total income came to £40,000 There were also taxes on houses, *octroi* and the *pandhari* tax on trades and professions, amounting to £27,000

In Bengal, there were 135 municipalities in 1873, with a total revenue of about £434,000 (including Calcutta), drawn from town funds, bazaar funds, cantonment funds and *chowkidari* (or police) funds *Octroi* was not levied in Bengal Corporate life in rural areas advanced very slowly A road fund, and a zamindari *dak* (post) cess had long been in existence, but the rates were low and collections meagre Tolls were also levied on roads, ferries, canals and rivers One great difficulty in raising local funds was the immunity from additional taxation that the zamindars claimed under the Permanent Settlement They raised a loud protest when, in 1870, proposals were made for levying local rates for roads and education The matter was fully discussed by the Select Committee on East India Finance (1870-3) The Secretary of State sanctioned the cess for roads, and the District Road Cess Act of 1871 was the result Thus, for the first time, a rate was levied on permanently settled estates It was limited to a half-anna per rupee of annual value For administering these funds, district committees were constituted with non-official majorities In 1870-1, the total income of the local funds came to £153,000.

In the North-Western Provinces and Oudh, municipal institutions made great advances under the Acts of 1850 and 1856. There were a hundred municipalities in 1873, with a total income of £234,187. *Octroi* formed the main source of their income, and it was collected from cotton piece-goods, foodstuffs, other merchandise and cattle, at rates not exceeding Re. 1-8 per cent. *ad valorem*. Local funds existed from early days for maintaining roads, schools and the district post The village police were originally remunerated by grants of rent-free land, but before 1870 a commutation into money took place, and this necessitated further taxation A cess of 7¼ per cent on land revenue and a house-tax were levied in addition to the old rate of 2¼ per cent for roads, posts and schools. In some districts, a further rate was levied for the payment of *patwaris* (village accountants), as the traditional *patwari* fund had been found inadequate The total income of the local funds came to £560,000 in 1870-1

In the Punjab, town committees existed from 1849, but they obtained statutory sanction only in 1867. In 1873, there were 128 municipalities in the Punjab, and their total income was £175,030. Cesses had been raised for roads, schools and post, and the total rate was 2½ per cent of the land revenue The first general rate was levied in 1871, and the assessment was 3 per cent of the annual value or 6 per cent of the land revenue. The district committees which administered these funds were mostly composed of nominated members

The state of local taxation in 1871 may be seen from the following table

Province	*Population* (millions)	*Local Taxation* (£)
Bengal (excluding Calcutta)	60	250,000
N.-W. Provinces and Oudh	30	530,000
Madras	30	470,000
Bombay . .	13	360,000
Central Provinces	9	160,000

PART IV

FINANCIAL DEVELOPMENTS, 1873-85

CHAPTER XV

FINANCES AND PUBLIC WORKS UNDER RECURRING FAMINE

§1 *Famine Relief*

After 1860 the relief of famine and distress became a great burden on the public purse The famine of Agra and the Punjab in 1861 involved a cost of Rs 27 lakhs, of which Rs. 9 lakhs was subscribed by the public The Orissa and Bengal famine of 1866 was at first neglected, but later relief operations on a lavish scale were carried out at a cost of Rs 95 lakhs, of which a part was wasted, and including the loss of revenue, it cost the state about Rs 1½ crores During the western India famine of 1868-9, the Government of the North-Western Provinces declared that 'every district officer would be held personally responsible that no deaths occurred from starvation, which could have been avoided by any exertion or arrangement on his part or that of his subordinates', and thus the Government took upon themselves a large responsibility That famine entailed a cost of Rs 72 lakhs The Bihar famine of 1873-4 turned out to be one of 'unusual brevity and of no exceptional severity', but owing to the lack of accurate information about the numbers affected, 'an immense organization' was set on foot at a cost of Rs 6¾ crores It was the experience of this famine that goaded the Government to organize a system of agricultural statistics During the great famine of 1876-8, which ravaged Madras and Bombay, the Government were much more cautious, and the administration of relief was very strict. Yet it involved a cost of Rs. 8¾ crores, of which Rs. 84 lakhs came from Great Britain and the colonies Thus, while during the ten years, 1860-70, the cost of famine relief came to only Rs 2½ crores, the expenditure during the five years, 1873-8, was Rs 16½ crores The following table gives the details of the cost of famine relief during the period.[1]

Famine	Area affected (acres)	Population affected (millions)	Cost of relief works (lakhs)	Gratuitous relief (lakhs)	Loss of land revenue (lakhs)	Total cost to Government (lakhs)
1860-1 ...	53,500	20 0	12 3	13 8	16 3	49 5
1865-6 .	180,400	47 6	21 3	23 4	30 8	153 6
1868-9 ...	296,200	44 4	35 8	12 8	5 2	72 8
1873-4 . .	54,200	21 4	202 2	33 1	2 8	675 9
1876-8 .	257,300	58 3	...	...	193 6	1,119 4

[1] Adapted from the table in the *Report of the Indian Famine Commission* (1880), vol. I, p. 24.

§2. *Attempts at imposing Local Responsibility*

The Government were alarmed at the growing burden of famine relief, at a time when expenditure in many other lines was also on the increase The unsteady nature of the opium revenue and the decline of the customs receipts made the Government anxious to lighten the burden on the central exchequer. With the success of the scheme of decentralization in 1870, it was thought that more responsibility should be imposed on provincial Governments and in the same year, a proposal was made for localizing the cost of famine relief.

The Commissioners appointed to inquire into the Bengal and Orissa famine of 1866 made a recommendation that the burden of famine relief should ordinarily be laid on local resources They said :

> On the whole, . it appears to us that the time has come when to relieve, not ordinary poverty, but the wider poverty of extraordinary occasions, it is necessary to institute some system of local taxation by which the richer persons of each neighbourhood, who are best able to test the reality of local distress, may be made to bear the burden of local and partial famine, so far as local means will suffice, before, as a last resource in graver cases, resort is had to the general taxation and the general charity of the country In the abstract it might be most fair that all should bear alike any visitations of Providence in any part of the Empire, but, on the other hand, there is all over the world so great a tendency to be overcharitable to our neighbours with other people's money, that it seems to be absolutely necessary in some way to localize all taxation for the poor except in case of the most extreme calamity surpassing every local means [1]

In regard to the permanently settled provinces, the Commissioners recommended that 'the obligation which the zamindars accepted with the permanent settlement, but which they have now failed to fulfil, should be put into practical operation and that local taxation should take the shape of a charge on zamindari rights to be enforced by law' As in England on similar occasions, when the rate assessed exceeded a certain proportion of the rental, an assessment on the district should be made, and when the charge on the whole district exceeded the maximum, assistance should be given from the public exchequer Thus, what the Commissioners recommended was, in effect, the adoption of the British system of poor relief However, they also wanted the Government to provide that the zamindars should be entitled to recover the amounts spent from those who held land under them, and that money should be advanced to the zamindars, to be recovered as land revenue by instalments.

[1] *Selections from the Records of the Government of India (Home Department)*, No LXXXVIII (1872), p. 4.

In the new system thus proposed, (1) ordinary poverty would be left to private charity; (2) extraordinary poverty and want affecting considerable classes of the rural population who ordinarily supported themselves would be a charge on the land, enforced by law; and (3) the most extreme famine affecting the majority of the people would be a charge on the general revenue and a subject of appeal to the charity of the people throughout the country.[1] Thus what the Commissioners suggested was a complete system of poor relief.

In 1870 these recommendations were circulated by the Government of India among the provincial Governments.[2] They brought forth a volley of adverse criticism The Government of Bengal vigorously questioned the statement that 'the obligation of the zamindars holding under the permanent settlement to support the poor of their estate has always been asserted by the officers of Government'. The Bengal Board of Revenue pointed out that if the arrangement proposed by the Commissioners were given effect to, the ultimate burden would fall upon the lowest class of sub-tenants, owing to the large increase of under-tenures recognized by the Government The objections urged were (1) that the system would impose upon a single class a burden to which they were not alone liable, (2) that it would throw upon zamindars the obligation of supporting people with whom they had no business relations; and (3) that by localizing the contributions for relief and laying upon owners of land a special tax in a time of sore distress consequent on the failure of the crops, it would exact a duty which, from the very circumstances of the case, would be impracticable of fulfilment in a season of general calamity [3]

The Government of Madras also disapproved of the proposal and characterized the levy as a famine-tax and an 'inequitable impost' 'It would be a cruel law which would tax poor districts where scarcities often occur, such as Bellary and Ganjam, while it let rich districts, where famines never occur, such as Tanjore, go scot-free.'[4] When a famine occurred all the agricultural classes were more or less in distress and the only people that profited were the grain merchants On the other hand, the southern presidency saw full justification for the state providing relief

It must be borne in mind that a famine-stricken district has prima facie, special claims for state aid, on the probable ground of previous neglect in a greater or less degree, owing to which safeguards against famine are there wanting which have elsewhere been provided in the form of irrigation works or a perfected system of communication, by means of which supplies can be readily thrown into the market whenever the demand offers inducement.[5]

[1] Op cit, p 5 [2] Circular letter dated 7 June 1870
[3] Letter from Bengal, 2 February 1871
[4] Letter from Secretary to the Board of Revenue, 8 February 1871.
[5] Letter from Madras, 15 March 1871.

With regard to the adoption of the English system of poor relief favoured by the Commissioners, a Bombay officer remarked that it would be most unsuited to the state of society in India, that the existing system of private charity in the country was far more effectual than any poor law which could be framed, and that 'it would be nothing short of a calamity were anything substituted for it which would tend, as a poor law infallibly would, to crush out village feeling'.[1]

This question formed also the subject of correspondence between the Government of India and the Secretary of State The latter in a dispatch of 1875 pointed out 'the great danger of tacitly accepting, if not the doctrine, at least the practice, of making the general revenues bear the whole burden of meeting all local difficulties or of relieving all local distress, and of supplying the needful funds by borrowing in a state that establishes a permanent charge for all future time,' and urged upon the Government the need for imposing some form of local obligation for famine relief [2]

The Famine Commissioners of 1878-9, while recognizing the 'obvious advantages in so localizing the cost of relief as to bring home to its administrators a sense of personal responsibility for its amount and the burden it creates' saw 'insurmountable difficulties in the way of any but a very partial development of such a system at that time'

They wrote

In the first place, it involves the assumption that the various provinces are, on the whole, equally well qualified to bear the burden that would thus be imposed upon them But this is far from being the case, not only are some parts of the country much more exposed to drought than others, but from the nature of the case the richest and most resourceful populations are those which are least exposed to this visitation, so that, supposing the cost of relief to be localized, the heaviest load would be imposed on those portions of the community least able to bear it There are some localities whose physical conditions preclude the possibility of famine, and which, when famines devastate less fortunate districts, reap direct advantage from the rise in prices Moreover, the various provinces differ much in the benefits they severally have derived from the expenditure of the general revenues, some tracts having been secured and enriched by a large outlay of the public money, while for others little or nothing has been done, and if at the present time a strict system of localization were introduced it would have the result of still further enhancing these inequalities by freeing the more advanced and prosperous districts from a contribution which they could easily spare, and leaving the people of the localities least favoured by nature, and worst supplied with the means of resistance to meet their trials, without that support which they could fairly claim, and which their fellows

[1] Letter from the Collector of Satara enclosed in letter from the Revenue Commissioner, Southern Division, 30 November 1870

[2] Dispatch to India, 25 November 1875,

have received, from the resources of the Empire as a whole On all these grounds, we are led to the conclusion that no system could be effectually and justly carried out which should impose on each province the duty of making good to the central Government the sums expended in excess of the provincial revenues on the relief of its population in time of famine.[1]

The absurdity of localizing famine relief to such small local divisions as districts, taluks or municipalities soon became patent to the Government. The Famine Commissioners pointed out that to leave such small areas to look after their own famine relief would necessitate a 'law of settlement', on the lines of the law in force in England during the eighteenth century, and they regarded the consequences of such a law as highly undesirable In their opinion there was no need for a system of general poor relief in India, and it would be 'impolitic to introduce the idea that relief of the poor in ordinary times is a regular part of the duties of the state . or to depart from the broad principle that it is only in exceptional seasons of difficulty that state relief should be given' However, although financial responsibility should not be localized, it was felt highly desirable to impose executive responsibility on municipal committees and local district organizations, and so to enlist their administrative aid in the actual management of relief under Government supervision.[2]

§3 *Proposals for enlarging Provincial Responsibility*

The optimism of Mayo and Northbrook in regard to public works was not justified, as unexpected circumstances intervened. The depreciation of silver, the fall of the rupee exchange, the recurrence of devastating famines and the increased expenditure on war frustrated the calculations of the Government In the Financial Statement for 1876-7, Sir William Muir (Finance Member) explained the embarrassments created by currency and exchange troubles and the changes in the borrowing policy that they necessitated 'With a sudden loss in the year's estimate of a million sterling, and with no assurance that the loss may not, for a time at least, assume still larger dimensions, the Government has felt that it is not now justified in adding to our future obligations by incurring any avoidable debt, even for the construction of works admitted to be beneficial to the country and in themselves remunerative.'[3] But work was not to cease immediately; that would be wasteful and inexpedient 'Material has been provided; and it would be a spendthrift policy leaving it unused, if not even leaving it to deteriorate. Establishments have been entertained on a large scale for the rapid completion of the works;

[1] *Report of the Indian Famine Commission* (1880), vol I, pp 56-7.
[2] ibid., p 59
[3] Financial Statement, 31 March 1876.

and these establishments cannot now be thrown adrift, or even at once materially diminished, without an expenditure in compensation that would swallow up the saving. It is also of much importance at the earliest possible period to complete the projects which are in course of construction, in order that the capital already expended on them may speedily bring in a return of revenue.'

But it was decided to curtail the sphere of operations. 'So long as these present adverse prospects continue, this class of expenditure will be gradually diminished, so as, in the end, if need be, entirely to obviate borrowing for the purpose.'

Then came the great famine of southern India, which formed a test of the value of railways and irrigation works in the relief and prevention of famine, and brought conviction to the minds of the sceptical that such works must be carried out at any cost Lord Lytton, the Viceroy, rose to a full sense of his responsibility in this matter In 1877 Sir John Strachey (Finance Member) addressed himself to the task of reorganizing public works finance He divided into three classes the works hitherto called 'extraordinary' First came works which were not expected to be directly remunerative, but necessary for imperial purposes; in future new works of this kind were to be treated as 'ordinary' Extraordinary public works of a remunerative character came under two categories, one which was to be called 'imperial', consisting of great trunk lines of railway and similar works required for the whole, or a large part, of the country, and the other to be called 'provincial' or 'local', comprising public works of special benefit to a province or a district A clear line of demarcation cannot be drawn between these two classes of works 'Imperial works confer great local benefits and works of local utility enrich the Empire, but although the two classes of works thus run into one another, the distinction is nevertheless a real one' Strachey explained that it was impossible to meet from the imperial revenues the obligation of providing all the works of local improvement which India requires; but the central Government were still carrying on works of little imperial importance, and this caused considerable financial difficulties All over India, there were large numbers of irrigation works which, although contributing only a small direct return, resulted in large indirect benefits to the province or locality where they were situated

In a country like India, exposed not to the chance, but to the certainty, of periodical drought and famine, the construction of works of irrigation is often an absolute necessity it is a necessity, whether the people in ordinary seasons take the water or not, and whether the canals pay or not. Although the province of Orissa is secured against famine, the (Orissa) canal gives no direct return on the great sum of money borrowed for its construction, and does not even pay

its working expenses; therefore the whole burden of the charge falls, not on the people really benefited, but on imperial revenues [1]

The Sone Canals in Bihar were also in the same position. Strachey forcibly asks: 'Why are districts and towns to pay for their own roads and schools and hospitals, for the paving and drainage of their streets, and their supply of drinking water, and why is it wrong that they should pay something for the irrigation works on which the actual existence of the people depends?' Indeed irrigation works were necessary for protection against famine, but they need not all be maintained at the expense of the Indian revenues. Accordingly it was decided to enforce provincial responsibility for works of provincial utility. 'Our present plan is this,' said Strachey, 'we desire to throw upon every province, so far as this is now practicable, the responsibility for meeting the costs of its own requirements.' Great advantages were anticipated for this new policy.

When local Governments find that this responsibility has been imposed upon them, and that the only means of obtaining, without fresh taxation, the works of improvement which they require is the wise and economical management of the works themselves, and the development of the income which they yield they, and their officers, will take an altogether different interest in these matters from that which they feel now, when the only apparent practical result of careless financial administration is diminished profit to the distant treasury of the Empire. When new proposals to construct works of improvement with borrowed money are brought forward, the incentives to economy and care on the part of the local Governments will be especially strong, and a powerful check will be placed on extravagant projects and enthusiastic estimates of profit. Under the present system, every province desires to get for its own useful works as large a share as possible of borrowed money, knowing that, whether the anticipations of future income prove to be accurate or not, there will be certain gain to the province and loss to the imperial treasury alone.[2]

Accordingly, arrangements were made under which a guarantee might be given by each province for the interest on the capital expended on its railways and canals and in order to enable provincial Governments to discharge such a responsibility, it was decided to impose fresh taxation, at first confined to certain provinces. They were (1) a modification of the Local Rates (North-Western Provinces) Act of 1871, a part of the proceeds being assigned for public works; and (2) a light licence tax on trades and dealings in the North-Western Provinces. The Government of Bengal were also directed to levy similar taxation for meeting the new expenditure that was going to be thrown on them. No additional taxes were imposed in Madras or Bombay as they

[1] Financial Statement for 1877-8, pp. 140-1. [2] Ibid., p. 143.

were stricken by one of the most devastating famines of modern times.

From 1878 the term 'extraordinary public works' was dropped and public works came to be classified as 'productive' and 'protective' works, and this was explained in the financial statement for 1878-9

Lord Lytton gave full support to the proposals of Strachey and he ably defended them in his speech before the Legislative Council in 1877, while discussing the taxation proposals mentioned above Referring to the beneficial effects of railways and irrigation works, he said

It is an unquestionable fact that the railways, and the railways alone, were the salvation of the situation in North Bihar during the famine of 1874; and that they have again been the salvation of the situation in Madras during the present year The sea, no doubt, would have thrown rice into the town of Madras, but, with the cattle dying of drought, it would have been impossible to move the grain up country, nor, if every possible mile of navigable canal had been completed throughout the Madras Presidency would it have greatly helped us to throw grain into those very districts where the famine has been at its worst, for the broken upland country of Bellary and Kurnool, and the Mysore plateau, are physically impracticable for big canals; and had there been no railway within reach of these districts, the people, where they have now died by hundreds, must have assuredly succumbed by thousands We are systematizing a policy, the principles of which have been repeatedly approved and proclaimed by our predecessors We are associating with it the interests, the powers and the duties of our local administrations. We are providing them with the means of permanently prosecuting and developing it exempt from the distressing uncertainty which has been hitherto inseparable from the execution of this policy, in consequence of the obligation, which has till now rested upon the Government of India, with very limited funds at its disposal for the prosecution of public works, to choose, from year to year, between the conflicting claims upon its purse of the various and dissimilar localities of this spacious Empire [1]

The provincial Governments also welcomed the scheme The Governments of Bengal and the North-Western Provinces were prepared to undertake large railway and canal extensions with the resources already assigned to them.

But the Secretary of State did not accept Lytton's proposal, and although parts of the scheme were later put into effect, the main scheme fell through and the progress of public works had a set-back Sir John Strachey wrote

A nobler, more humane, or wiser programme was never devised by any government for the benefit of a country than that put forth by the Government of India in 1878 for the protection of India against this most terrible and ruinous and far-reaching of all natural

[1] *Legislative Council Proceedings*, 27 December 1877.

calamities; and until it is brought into far more complete operation, than has hitherto been permitted, the most urgent of the duties of the British rulers of India to the vast population they have undertaken to govern, will be left unfulfilled.[1]

However, the above proposals gave a fillip to provincial public works activity. Already, some of the provincial Governments had been vigorously pushing on local improvements. In 1875, the Government of the North-Western Provinces constructed a railway line of 30 miles from Muttra to Hathras on their own responsibility and with funds partly borrowed locally. On the capital so subscribed, a moderate guarantee of interest was given, to be met from provincial revenues. A committee of the Indian capitalists who subscribed to the funds was constituted for purposes of consultation. Other similar provincial enterprises were also set on foot in Bengal and elsewhere.

The financial decentralization measure of 1877 greatly enlarged the powers of provincial Governments and the impulse thus given was kept up. In 1878, the Government of India addressed the Secretary of State on the desirability of delegating financial responsibility for certain railway lines to local Governments and soon that policy was adopted and rules were framed for the devolution of management and financial responsibility to the provinces. Under the general control of the Government of India, provincial Governments were to manage the construction and working of those railways. The provincial Governments could also raise loans in the name of the Secretary of State On these terms, the Patna-Gaya line was handed over to the Bengal Government and the Cawnpore-Farukhabad line to the Government of the North-Western Provinces By 1881, provincial Governments came to manage about 865 miles of state railways [2]

§4 *Famine Insurance Fund*

It was recognized at an early stage that even if provincial Governments did all they could for famine relief, the ultimate financial responsibility of the central Government would still remain; and the need was felt for creating resources whereby provincial funds might be supplemented. By 1870 experience had convinced the Government that famine was no extraordinary occurrence in India, and that provision for famine relief must become a normal feature of the budget In 1874 Lord Northbrook wrote . ' Whatever means we may take to obviate or mitigate them, it must, under present circumstances, be looked upon as inevitable that famines will from time to time occur . . . It is necessary, therefore, that besides a fair surplus of income over ordinary

[1] Strachey, op cit , p 170 These words first appeared in the Budget Statement for 1880-1.
[2] Sanyal, op cit., p 86.

expenditure, such a margin should be provided in addition, in ordinary times, as shall constitute a reasonable provision for meeting occasional expenditure upon famines. If the surplus be employed in the reduction of debt, in the construction of reproductive public works or remain in the cash balance, the expense caused by future droughts may fairly be met by appropriations from cash balances, or by loan, to the full extent of the accumulations of surplus.'[1] The need for pushing on railway construction and irrigation works was also emphasized as a means of protection against famine. This proposal was accepted by the Secretary of State (Lord Salisbury), but no practical steps were taken until after the great famine of 1876-7.

In 1877 Sir John Strachey made specific proposals for a famine insurance fund and provision for it was made in the budget for 1878-9 Taking as the basis the famine expenditure of the previous five years, 1873-8 (which amounted to £16½ millions), it was calculated that the annual average cost of relieving famine was not likely to exceed £1½ millions The Famine Commission of 1878-9 made elaborate inquiries into this matter and came to nearly the same conclusion, their estimate coming to £1¼ millions. Although the object of the fund was clear, the purposes on which it should be used were not defined at first Indeed famine relief must be the first charge on it, but it was not to be a fund specially allocated to meet the cost of famine relief The Famine Commission recommended that 'so much of the £1½ millions as remained after meeting charges for famine during the current year was to be applied to the discharge of debt or the prosecution of unremunerative public works of a character likely to give protection to the country against the effects of drought' As the Government were then annually borrowing from £3 to £4 millions, the result expected was a reduction of the borrowing to the extent of the surplus available Therefore, if there was no famine, the Government would either reduce public debt by £1½ millions or avoid debt to that extent so that when a famine broke out the Government could borrow an amount equivalent to that already spent from the famine fund

The revenue required was to be found partly from additional taxation and partly out of the savings resulting from the provincial contracts initiated in 1877 The former source brought in £1·1 millions, and the latter £400,000 The actual surplus provided for by Strachey was £2 millions of which £500,000 was meant to provide a margin to meet unforeseen contingencies, other than heavy war expenditure.

Differences soon arose in regard to the utilization of this fund. The Secretary of State proposed that protective works might be constructed from the fund, but the Government of India considered that it was unwise, as it would 'frustrate the main object of its

[1] Financial Resolution, 23 April 1874, para 32, 33

creation, namely the prevention of any permanent increase of the public debt by reason of the public expenditure upon famines'.[1] It was recognized that such works should be carried out chiefly on provincial responsibility, and that all that the Government of India should do was to help the provinces in meeting the interest charges on such capital works. The Government therefore proposed that a portion of the fund, say £250,000, should be so used and the amount be distributed between the provincial Governments according to the urgency of their needs. This proposal was not accepted by the Secretary of State, Lord Cranbrook, who considered it unwise to raise loans for protective works. It was also decided that one-half of the fund must be devoted to repaying the loans raised in England on account of famine. 'The remainder may be appropriated, at your discretion, to the extinction of debt, to the relief of famine, or to the construction of protective works.'[2]

Owing to the Afghan War and the consequent financial difficulties, the famine grant was suspended in 1879. The proceeds of 'famine taxes' were used for reducing the war deficits.[3] Further, in the accounts, only actual famine relief expenditure, if any, was shown, and the surplus secured by the new taxes and arrangements was not separately shown. This raised a controversy, both in India and in England. Professor Fawcett attacked the policy in the *Nineteenth Century*. He wrote: 'The new taxes have been collected and not a shilling of the money which they yield has been devoted to the purposes to which they were pledged. A few months after the famine fund was called into nominal existence, the invasion of Afghanistan was undertaken and the fund was absorbed in defraying the expenses of the military expedition.'[4] It was also pointed out that the fund was a convenient arrangement for making good the loss resulting from the repeal of the import duties on cotton goods—a financial measure which was severely criticized at the time on many grounds. Certain statements in Strachey's speeches in the Legislative Council also caused some misgiving then and created difficulties afterwards. Strachey said: 'Whether the public accounts show surplus, equilibrium, or deficit, it is indisputable that these taxes must prevent debt by the exact amount which they yield, and that, when famine occurs, our resources for meeting it will be increased by an amount exactly equal to the amount obtained from those taxes with compound interest upon them.'[5] The Secretary of State took exception to this and held that in order to fulfil the pledges of the Government and satisfy the public, some greater security for the proper carrying out of an insurance scheme must be obtained

[1] Dispatch, 16 September 1878. [2] Dispatch, 20 February 1879.
[3] Baring's Minute of 24 August 1883, par. 5.
[4] May 1879, also in his book, *Indian Finance* (1882), p. 83. Fawcett was Professor of Political Economy at Cambridge and a member of Parliament.
[5] Financial Statement (1880-1), par. 60; Proceedings of the Legislative Council, 1894.

Both Lytton and Strachey had left India in the meantime, and Lord Ripon and Evelyn Baring had stepped into their shoes. They agreed with the Secretary of State and the scheme was reconstituted in 1881 [1] It was decided that the full grant of £1½ millions should always be entered in the budget under the head of Famine Relief and Insurance with sub-heads for (1) relief, (2) protective works, and (3) reduction of debt; and that in the accounts the expenditure should be shown under the same heads The actual expenditure on famine relief, if any, in the year was to be a first charge upon the grant. Protective works were to be the next charge and whatever balance remained was to be used for the reduction of debt. Thus the purpose of the famine insurance fund underwent a change. The original policy was to devote the whole of the grant, less the actual cost of famine relief, to reduction or avoidance of debt, but according to the arrangements of 1881, a large part of the grant was to be applied for what were called 'famine protective' public works It was later decided that half the grant (i e £750,000) should be allotted for protective works,[2] both irrigation works and railways, and that the grant need not be confined to state railways [3] This decision was largely influenced by the recommendations of the Famine Commission The conviction also grew that protective works might be expected to prevent famine or render its relief less costly when it occurred. Various schemes for protective works were provided for in Baring's Budget Statement for 1881-2. He also denied that there was any necessary connexion between the famine insurance grant and the new taxes levied in 1878 and 1879. Owing to the increasing loss by exchange resulting from the depreciation of silver, it was found inadvisable to remit to England any large sums as previously proposed, and it was decided to entrust the matter to a special commission

The following table will show how the grant was spent in the first five years of its administration

Year	Famine Relief	Protective Irrigation Works	Protective Railways	Reduction or Avoidance of debt	Total
	Rs	Rs	Rs	Rs	Rs
1881-2 ..	348,830	1,354,490	6,824,030	7,151,510	15,678,860
1882-3 .	221,030	2,634,430	−1,331,290	13,435,550	14,959,720
1883-4 ..	92,050	2,832,230	4,492,180	5,811,370	15,228,130
1884 5	73,500	2,530,460	9,464,570	3,415,040	15,483,570
1885-6 .	406,950	1,868,070	5,919,271	6,834,980	15,292,710

[1] Financial Statement, 1881-2, also Dispatch from India, 2 February 1881.
[2] Dispatch, 6 October 1885
[3] Includes Rs 292,710 spent under railway revenue account.

§5. *Progress of Railways*

Owing to recurring famine and the depreciation of silver after 1873, the Government had to increase their expenditure in other fields, and the pace of progress in railway construction was not kept up. The fall of the rupee exchange increased the burden of interest charges paid in sterling, and therefore borrowing in England was restricted, and capital was raised as far as possible in India. But as the internal loanable resources were limited, it was found necessary to fall back on the former system of leaving railway construction to private enterprise. State effort was chiefly confined to the construction of railways needed for famine protection or for strategic purposes.

The Famine Commission of 1879 urged upon the Government the imperative need for extending railway facilities for the protection of the country against famine. They wrote:

> Until the whole country is more completely supplied with railways or canals by which food can be transported rapidly, cheaply and in large quantities to every part where severe want may exist, the possibility of some unusual demand for Government interference in particular localities, or for special classes of people, cannot be shut out, nor the danger of the occurrence of a great calamity altogether removed. It is therefore to the improvement of internal communications and the removal of all obstructions to the free course of trade, accompanied by the extension of irrigation in suitable localities and in improved agriculture, that we look for obtaining security in the future against disastrous failures of food supply in tracts visited by drought.[1]

The Commissioners also estimated that 20,000 miles of railway would be required for insuring the country against famine. About 10,000 miles of railway already existed, and at least 5,000 miles were urgently needed.

'Nor will any smaller scale of operations commend itself to anyone who carefully considers the facts of the case,' added Sir John Strachey, writing in 1881.[2] 'This is not the time to say "Rest and be thankful". It is in the intervals of prosperity which are granted to us that we must prepare for the inevitable future.' Strachey also criticized the restrictions which had gradually been imposed on the prosecution of these works with borrowed money, and pleaded that in the *national* interest of India, state construction of railways was better than private enterprise. 'Experience had established beyond dispute', he added, 'that it is within our power both to construct and work railways economically through the state agency.' And few were more competent than Strachey to express this opinion. He made an analytical study of the effects of foreign capital on India. 'In considering this subject, we are bound to place ourselves in the point of view of a national

[1] *Report*, Part I, p. 54. [2] *Finances and Public Works*, p. 403.

Indian Government, and not of the English capitalist.' 'It may, without hesitation, be said that in the case of lines yielding a profit, the amount which would be carried out of the country by a company of foreign capitalists, including as it would both interest on capital and profits, must be greater than the charge incurred under Government management which could consist of interest only, since the profits, even if smaller, would all remain in India '[1]

But the new regime in India did not favour state enterprise in the economic sphere Both the Viceroy (Lord Ripon) and the Finance Member (Major E. Baring, afterwards Lord Cromer) were convinced free traders and wanted to give as much room as possible for private enterprise; and in this they were supported not only by the India Office, but by the many economists and publicists, like Fawcett, who raised an alarm in Parliament and outside about the disastrous results of extravagant expenditure in India.[2]

In the Financial Statement for 1881-2, Baring made out a powerful case for leaving railway construction to private enterprise. He said:

> Even if the general arguments in favour of constructing railways solely through the agency of the state were more valid than I conceive them to be, I should still hold that those arguments did not apply in India The first economic requirement of India is that her resources should be developed without delay and that means of communication should be so improved as to facilitate emigration from districts which are over-populated to those in which labour is scarce I doubt whether Government agency alone can adequately perform this task, and I hold that in any case it is not desirable that it should do so if private agency can be found to undertake the work I am not without hope that, if an impulse can be given to railway construction by British enterprise, native capitalists will enter the field, either alone or in conjunction with Englishmen. I should regard such a movement as an important factor in the practical education of the people, inasmuch as it would tend to wean the natives of India from that dependence upon Government which is intensified by concentrating in the hands of the state all the organized skill which the construction and management of a railway requires If ever the natives of this country are to be schooled in the first rudiments of self-government, it is desirable that they should be encouraged to act for themselves in such matters, rather than that they should rely always upon that coercive philanthropy which insists upon doing everything for them [3]

Baring also proposed that the Government should help private capitalists in a variety of ways. 'Government officers may make surveys and estimates and supply all necessary information with a view to enabling private individuals to judge for themselves whether they care to invest their money in any particular scheme The land on which the line is constructed may sometimes be given

[1] Strachey, *op cit*, *pp 405-6*.
[2] Fawcett, *Indian Finance* (1880), pp. 140-57 [3] Financial Statement, 1881-2

free of cost. Possibly in some cases grant of waste lands in the vicinity of a new line may be given. On the other hand, certain conditions, to some of which I have already alluded, must be imposed, and it will be important only to give concessions to such persons as can afford good security that they have at their command a sufficient amount of capital to carry out the undertaking to a successful issue '[1]

Ripon completely agreed with Baring on the railway policy, but he was keen on extending railways and thus strengthening the country against famine He found the annual outlay of £2½ millions for productive public works quite inadequate, but there was no means of increasing that amount The Secretary of State insisted that money for state undertakings should be borrowed strictly on commercial principles, i e provided they would give a return of 4 per cent on the capital outlay within five years of completion[2] He also pressed on the Government of India the need for attracting private capitalists by giving them all possible concessions

Thus private enterprise was more and more harnessed for railway development The terms entered into with the companies varied The contract with the Southern Mahratta Railway Company was perhaps typical. The Company was to raise the capital (£5 millions) on a 4 per cent guarantee till 1889 and 3 per cent thereafter The railway was to be state property and the rates and fares were to be controlled by the state, but the construction and working were left to the Company Thus the state practically did everything, although through the agency of the Company.[3]

Owing to the conflicting views that then prevailed in England and India regarding state loans for public works, and the terms on which companies should function, a Parliamentary Select Committee was appointed in 1884 The Committee found that a more rapid extension of railways in India was needed for protection against famine, for providing a stimulus to internal and external trade and for opening up fertile tracts and coal fields. They therefore recommended that both state and private enterprise must be utilized All state borrowing need not be for 'productive' lines only, as hitherto, and it was left for the Government to decide which lines could with advantage be handed over to the companies and which lines constructed directly by the state. They also made various detailed recommendations which need not be dealt with here.

[1] Financial Statement for 1881-2 However, he later came to realize that the conditions of India were not altogether suited to the adoption of unalloyed *laissez faire*. In 1883, he wrote: 'The comparative absence of private capital throws upon the state many onerous duties, which in other countries can be more advantageously performed through the agency of private enterprise' (Minute, 11 August 1883) Parliamentary Paper C. 352 of 1885

[2] Dispatch, Financial, 6 January 1881

[3] *Moral and Material Progress* (1882-3)

§6 *Reproductive Public Debt*

The total capital expenditure on 'productive' public works came to about £65 millions by 1883. The annual outlay on these works is shown in the table below

Year	State Railways	Irrigation	Other items	Total
	£	£	£	£
1872-3	3,251,503	5,168,677		8,420,180
1873-4	2,351,625	1,198,682		3,553,307
1874-5	3,014,180	1,235,391		4,249,571
1875-6	3,165,184	1,105,145		4,270,629
1876-7	2,865,861	943,423		3,809,284
1877-8	3,984,968	806,084		4,791,052
1878-9	3,327,888	794,654	259,356	4,381,898
1879-80	2,680,193	598,837	9,815,862	13,095,192
1880-1	3,102,331	5,106,467	488,435	9,297,233
1881-2	1,656,675	1,181,888	1,110,168	3,952,031
1882-3	1,662,466	2,321,308	678,338	4,665,112
Grand Total	31,366,171			64,485,189

Thus the total capital expenditure for a period of eleven years amounted to £64·48 millions. This sum represents not the actual capital outlay from loans and current revenue, but the nominal amount on which interest was charged. It includes the purchase of the East India Railway (1880) and of the Kurnool Canal in Madras. It also includes sums transferred from 'ordinary' expenditure in past years to productive capital outlay.

The financial results of the working of productive public works were not very encouraging at first, but as time went on revenue exceeded expenditure. For three years there were deficits, but the famine of 1877-8 brought more work to the railways and then followed years of surplus. From 1877-8, the portion of land revenue due to irrigation was credited to public works, but that change was not introduced in Madras and Bombay till 1880-1.

During the same period, considerable expenditure was also undertaken on public works 'other than productive'. The total expenditure on such works from 1873 to 1882-3 (ten years) amounted to £59·35 millions, made up as follows: railways £6·14 millions, irrigation £7·10 millions, military £11·16 millions, civil buildings, roads etc. £34·94 millions.[1]

[1] *Moral and Material Progress* (1882-3), p. 266.

CHAPTER XVI

TAXATION POLICY, 1877-85

§1 *The Fall of Silver*

WAR and famine were not the only causes that dislocated Indian finances after 1873. Another important cause was the depreciation of silver and the consequent increase in the burden of remittances to England. The depreciation of silver after 1873 was due to (1) diminished production of gold and increased production of silver, and (2) increased demand for gold arising from the adoption of the gold standard by Germany, followed by Denmark, Norway, Sweden and Holland.[1] When these countries adopted gold monometallism, the demand for silver for currency purposes largely diminished, but the supply of silver went on increasing. Before 1873, the price of silver and gold was kept stable at the legal ratio of $15\frac{1}{2}$ to 1, owing to the predominance of the bimetallic system. But when the Latin Union[2] in 1874 suspended the free coinage of silver and gave up the legal ratio between gold and silver, the link between the two metals was broken and silver began to slump rapidly.

This had an immediate effect on the Indian Government's finances. Their dues in England had to be paid in gold, but revenue was received in silver rupees, and therefore, when the exchange rate fell from 2*s*., more rupees had to be paid for a given amount of sterling. Even before 1873 the exchange rate used to fluctuate, but it never fell below 1*s*. $10\frac{3}{16}d$., in 1874, however, the exchange fell to 1*s*. $9\frac{1}{2}d$., by 1880 it had fallen to 1*s*. $7\frac{5}{8}d$. and it fell to 1*s*. $6\frac{1}{4}d$. in 1885.[3] Consequently the Government had to meet their sterling liabilities at an increasing cost from year to year, and, for this purpose, more revenue had to be raised. The loss by exchange was only Rs. 90 lakhs in 1873, but it rose to Rs. 3 crores by 1878, and to Rs. 4·3 crores by 1885. The pound was still conventionally reckoned at Rs. 10, and in order to correct this discrepancy a new head of expenditure was created i.e. 'loss by exchange'. This mode of accounting led to a good deal of confusion, and it became difficult to estimate properly the burden of the different services.[4] The work of the Finance Member also became extremely difficult. It was not possible to estimate beforehand what the actual cost of a service would be in the budget year, as there was no knowing what the exchange rate would be. These

[1] *Report of the Gold and Silver Commission* (1888), pp. 56-60.
[2] France, Belgium, Switzerland and Italy.
[3] *Fowler Committee Report* (1898), p. 87.
[4] Strachey, op. cit., pp. 388-9.

inconveniences became much greater after 1885, as we shall see later

§2 *Provincial Rates*

What with famine, war and loss by exchange, the revenues of the Government, already inelastic, became altogether inadequate for meeting such growing needs. This was partly the cause of the transfer of certain new charges to the provincial Governments in 1877. By the arrangements of that year, the Government of India obtained relief to the extent of £400,000. The burdens thus imposed upon the provincial Governments included such expanding items as the maintenance of public works, and therefore fresh taxation became necessary. The North-Western Provinces were the first to take action. The Local Rates Act of 1871 placed the burden only on agricultural classes, and the funds raised had to be spent in the first instance within the district itself. This latter provision was modified by Act VII of 1877 which empowered the Government to appropriate a portion of the rates on land for provincial railways and canals. By Act VIII of the same year, a licence tax was levied on trades and dealings on the ground that the trading classes 'were amongst those who benefited especially from the class of works, which it was now proposed to transfer to the local Governments'.[1] Under this Act, traders were divided into three classes, and the rates charged were Rs. 16, 8 and 2 respectively. In the first class were bankers, money-lenders, joint-stock companies and wholesale dealers. Only those who earned not less than Rs. 200 a year were taxed. The proceeds of these two taxes were to be utilized for the maintenance of public works.

In Bengal also, a new cess was raised for the same purpose. Already in 1871 local rates had been imposed on land for the construction and maintenance of roads. The proceeds of this tax went into the coffers of the district committee. In 1877, a public works cess for provincial purposes was imposed by Act II (Bengal) of that year. It was limited to a maximum of a half-anna per rupee of annual value, and was levied in precisely the same way as the road cess.

The Bengal zamindars protested against the new cess, even as they did in 1871 against the road cess. The well-known Bengal publicist, Kristodas Pal, attacked the bill on the ground that it was unfair to landowners and that it violated the principles of the Permanent Settlement. Taxation in Bengal was higher than in other provinces, he said, and Bengal got only a small proportion of the total revenue raised in the province.[2]

In 1880 a consolidating Act was passed (the 'Cess Act'), which

[1] *Legislative Council Proceedings*, 21 March 1877 (Colvin's Speech).
[2] R. C. Palit, *Speeches and Minutes of the Hon'ble Kristodas Pal* (1882), pp. 165-83.

superseded the Acts of 1871 and 1877. Houses were exempted from the cess and elaborate provisions were made for the assessment of *lakhiraj* or revenue-free holdings The total yield of the cess in 1882-3 was £701,000.

§3 *Famine Taxes*

In 1877, the Government of India decided to constitute a Famine Insurance Fund, as has been explained in Chapter XV. For this purpose, the revenue of the Government of India had to be increased by £1,500,000 As the revenue from customs duties was falling owing to the progressive adoption of the free trade policy, the Government had to look to some form of direct taxation. An income-tax had already been tried and there was powerful opposition to its being revived. The Secretary of State was also firm about it At this stage it struck the Government that the non-agricultural classes in the country were taxed very lightly. According to the Stracheys, 'they [the trading classes] have ordinarily contributed almost nothing to the expenses of the state, while they derive perhaps the largest share of benefit from our administration, and from the railways and other works of improvement, provided at the cost of the country at large The exemption which these classes have enjoyed has long been felt to be one of the most indefensible and inequitable peculiarities of our Indian system of taxation '[1]

Accordingly, the Government of India decided to levy a licence tax on trades and dealings, on the lines of the North-Western Provinces licence tax. It was not to be a fee paid for licences, as in England, but a tax assessed on persons engaged in trade or professions according to the incomes received by them The assessees were to be divided into classes according to their presumed income and all persons in the same class paid at the same rate. Thus the new tax was really an income-tax under another name. The rates of assessment were not to exceed two per cent of the annual profits, and the average was 1½ per cent.

The first enactment in this direction was the Northern India Licence Tax Act—II of 1878—the operation of which extended to the North-Western Provinces, Oudh and the Punjab. Similar Acts were passed in that year for Bengal (Act I), Bombay (Act III), and Madras (Act III) In the Central Provinces, the *pandhari* tax served the same purpose, and half the revenue from that impost (about £12,000) was credited to the imperial treasury from that date The taxable minimum in most provinces was Rs 200, but in the Punjab, Bengal and Bombay it was Rs 100 In 1878 the licence tax yielded a net revenue of £820,000

Nor did the Government of India let off the agriculturists.

[1] *Finances and Public Works*, p 196

It was argued that they were the first to suffer by famine and therefore had a duty to contribute to famine insurance. Accordingly, an additional burden was placed on land in all provinces except Madras and Bombay, which were then stricken by famine. An extra cess of one per cent on gross rentals was levied in the Punjab, the North-Western Provinces and Oudh and this was collected through the local bodies. In the Central Provinces also an additional rate of one per cent on the annual value of land, equivalent to two per cent of the Government revenue, was imposed in 1878. In Bengal, no further land cess was levied as there was already a public works cess raised for provincial purposes in 1877. The landowners all over the country grumbled about this new cess, but the Government were firm. 'What does the Government ask?' said the Chief Commissioner of the Punjab. 'Why, it asks a body of landowners whose property has more than sextupled in value to pay a famine insurance rate for that property amounting on an average to one farthing per acre per annum.'[1] The new cess on land brought in £500,000. Thus by additional taxation of about £1·2 millions, supplemented by the gains from provincial contracts, the Government was able to find adequate funds for famine insurance.

No additional cess for imperial purposes was levied in Madras and Bombay, but the duty on salt was raised from Re. 1-13 to Rs. 2-8. The ostensible object of this was to equalize salt duties all over India and not to place any extra burden on the people, but the result was that salt became dearer in Madras and Bombay and the revenue of the Government increased.[2]

§4 *Opposition to Licence Tax*

There was criticism of the licence taxes all over the country. The principal point urged was that professional men and salaried classes were exempted from its operation. It was really an income-tax disguised as a licence tax. The Government repeatedly pointed out that the trading classes generally benefited most by famines and therefore must contribute largely to famine insurance, but the European Chambers of Commerce in India questioned the truth of that view. The Madras Chamber of Commerce pointed out that officials in India were remunerated 'on a scale which has no parallel in any other part of the world', and that the exemption they enjoyed was unfair to the other classes. Fawcett supported this opposition in England and criticized the Government for the unequal distribution of the tax-burdens on the community.[3] Complaints were also made about the method of collecting the tax, and the inquisitorial procedure often resorted to.

[1] Strachey, *Finances and Public Works*, p. 199.
[2] Financial Statement, 1878-9 and 1879-80.
[3] *Indian Finance* (1880), p. 182.

The work of collection was left to low-paid underlings and therefore corruption was inevitable The poorer artisan classes like barbers and dhobies were also taxed According to a Bengal Commissioner, 'the burden of the Bengal licence tax falls with particular severity upon the lower classes who live from hand to mouth and are unprepared to meet any unusual charge without dispensing with some necessary'[1] At Calcutta, the water carriers, carters and others struck work as a protest against the tax in 1878. Newspapers, both Indian and English, joined in this opposition

Realizing the growth of discontent, the Government attempted to lighten and equalize the burden of the tax Soon after the imposition of the licence taxes, in July 1878, the Government proposed to extend the tax to professional and salaried persons, but subsequently, it was abandoned on the ground that it would bring in very little revenue and would not suffice to meet the deficit A similar proposal was made in 1879, and a bill for extending the tax to officials and professional men was circulated among the provincial Governments But the bill was delayed and, as the financial situation soon improved, the proposal was again dropped However, in 1880, as a concession to popular feeling, the Government raised the exemption limit to Rs 500 in all the provinces Thereby the poorer classes of taxpayers were relieved In Bombay 86 *per cent of the* assessees were thus exempted *from* the tax

Many undesirable features still remained According to the Financial Statement for 1882-3 'Not only are there great inequalities in its incidence in the various provinces, but also it is open to the very great objections that, in respect of those classes who are taxed, it falls with disproportionate hardship on the less wealthy and further, that other classes who might with justice be called upon to pay the tax, are altogether exempted' Baring stated that the licence tax cannot be incorporated in the permanent fiscal system of the country, at the same time he was unable to abolish it immediately owing to the uncertain nature of the financial situation But he hoped to abolish or to recast it in the near future, and this was done when the income-tax was restored in 1886

§5 *The Abolition of Customs Duties*

In spite of the critical condition of the Government of India's finances in the period under review, the customs duties were swept away and with them disappeared a growing head of revenue Free trade had triumphed in England, and what was good for England must be good for India; but more potent than the theoretical arguments of economists was the political pressure brought on the Government of England by the cotton manufacturers of

[1] J P Niyogi, *The Evolution of the Indian Income-tax*, pp 100-1

Lancashire. In 1874, the Manchester Chamber of Commerce memorialized the Secretary of State on the injurious effects of Indian cotton duties on the English textile industry. In the same year the Government of India appointed a Tariff Committee to go into the question, but the Committee held that the demand for the abolition of the entire duty was not justified There was only a limited competition between Indian and British cotton goods. They also rejected the proposal to levy an excise duty on Indian mill products. The Government of India swept away all export duties except those on indigo, rice and lac; the general tariff was reduced from $7\frac{1}{2}$ to 5 per cent. except on articles subject to the special duty; the tariff valuations on cotton goods were reduced, and a 5 per cent duty was imposed on raw cotton imported into India from outside Asia This latter was meant to prevent the Bombay mills from taking to the manufacture of finer fabrics. The Secretary of State's instructions in regard to a more drastic step came too late

An acrimonious controversy then raged between the Government of India and Whitehall in regard to the cotton duties. The Government of India insisted on maintaining the duty owing to the financial stringency brought about by the Great Famine The Secretary of State maintained that the interests of India imperatively required the timely removal of a tax which was 'at once wrong in principle, injurious in its practical effects, and self-destructive in its operation'[1] and he was sure that it was best in the interests of 'the consumer, the producer and the revenue' With the arrival of Lytton as Viceroy and the appointment of Strachey as Finance Member, the policy of free trade was bound to triumph. Strachey was convinced that the cotton duties must go, but he regretted that the financial situation was not favourable for such a measure He said 'The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large customs revenue from anything else I do not know how long a period may elapse before such a consummation is reached, but whether we see it or not, the time is not hopelessly distant, when the ports of India will be thrown open freely to the commerce of the world'[2] Three members of the Viceroy's Council dissented from this decision In the following year, further pressure came from the Secretary of State who forwarded a Resolution of the House of Commons demanding a repeal of the cotton duties, and in March 1878 the duty on various classes of coarse goods like unbleached tea-cloths, jeans, sheetings and drills not containing finer yarn than 30's was removed. This was extended in 1879 in such a manner as to take away completely the protective effect of the tariffs. Thus, in spite of the heavy

[1] Parliamentary Paper 56 of 1876, p 38 [2] Financial Statement, 1877.

budget deficit, the Afghan War, and a rapid decline in exchange, a revenue of about £250,000 was sacrificed. Although a majority of the Executive Council opposed this action, the Viceroy overruled it. Nor was there a majority for it in the India Council which was equally divided, and only the casting vote of the Secretary of State saved it. Among the dissentients were some of the ablest administrators who had retired from the Indian services. There were loud protests, not only in India but also in England. Fawcett wrote: 'No one for a moment will even pretend to say that in the present state of Indian finance, the idea would have been entertained of remitting these duties if the finances of India were administered in the interests of that country alone'[1]

In 1880 export duties on indigo and lac were abolished, but the duty on rice remained

There still remained import duties under 39 main heads Various difficulties arose, especially in regard to the definition of dutiable goods and a 'constant battle was waged between importers and Custom House officers' Several anomalies also arose which led to confusion and inconsistency Certain heads were freed which were really parts of, or connected with, others left dutiable. 'A carriage may be imported duty free, but all the principal materials for building one in India are dutiable Manufactures of leather are free, but a leather portmanteau is dutiable because it is fitted with a metal lock Spades are classed as agricultural implements and are thus exempted from duty, but shovels are dutiable'[2] All this caused an amount of friction, scrutiny and interference with trade quite incommensurate with the net revenue they produced

These defects of the customs tariff were obvious to Lord Ripon and his Finance Member, Major Baring, and taking advantage of the improvement of finances in 1882, not only cotton duties but the whole of the import duties excepting those on liquor, arms and salt were swept away, thus sacrificing a revenue of £1,219,000 At the same time the duty on salt was equalized all over India at the rate of Rs 2 per maund and this involved a further loss of £1,400,000

Thus the customs tariff of India became, as far as imports were concerned, more free than that of England herself While the Government held firmly to the unpopular licence-taxes which produced a comparatively small revenue, customs duties which were willingly borne and which produced a larger revenue were abandoned. Nor was this measure needed in the interests of Lancashire, because the cotton duties had ceased to be protective; it was really an offering to the idol of free trade, on

[1] *Indian Finance* (1880), p 75
[2] Financial Statement (1882-3), p. 42

which English statesmen and economists had gone crazy in those days

§6 *Other Fiscal Reforms*

After 1880 there was a rapid improvement in the finances of the Government of India While there was a deficit of £4 millions in 1880, there was a surplus of an equal amount in 1881-2 and a similar surplus was expected for 1882-3 Thus emboldened the Government to carry out various fiscal reforms of which the two most important have been dealt with above Other reforms carried out were the abolition of the *patwari* cess in the North-Western Provinces and the improvement of the position of the subordinate civil services The *patwari* cess was a rate on land to provide for village accountants and their supervisors It was assessed at the rate of about six per cent on the rental and was partly recoverable from the cultivators From that time the *patwaris* and other subordinate revenue staff became servants of the Government, and not of the landholders as before and were paid by the Government The relief gained by the landholders amounted to £240,000 The improvement in the emoluments of these subordinate executive services was carried out at an annual cost of £50,000

However, the financial improvement did not last long. The actual surplus in 1882-3 was £674,000 and in 1883-4, £1,879,477 But in the two following years there were deficits amounting to a total of £3 2 millions

CHAPTER XVII

GROWTH OF PROVINCIAL FINANCE, 1873-85

§1 *Provincial Contracts, 1877-8*

Not long after the introduction of the system of decentralization, the need began to be felt for its extension over a wider field. Lord Mayo himself looked forward to the time when specific revenues rather than grants would be made over to the provincial Governments. In 1872 Sir John Strachey suggested the transfer to the provincial Governments of some heads of receipts to meet the charges transferred to them. The collection of revenue was done by provincial Governments, but they had little interest in fostering them. Bombay, for instance, had to provide buildings for salt, but had no direct interest in salt revenue. Naturally, the provincial Governments discharged such duties with indifference, if they did not positively neglect them. 'Real financial responsibility in the provinces,' wrote Strachey, 'needs that they should be given a stimulus to administering revenue collection properly.' There were various branches of revenue, the efficient management of which required special attention from provincial authorities. In particular, excise and income-tax were of that nature. There were many other items of comparatively little importance which were connected with the transferred services. Strachey suggested the transfer of the charges under general administration, law and justice, medical and civil salaries, miscellaneous charges, and various minor departments.

Along with these new items, it was also necessary to hand over some expanding revenues in order to meet growing charges. The central Government were not then in a position to part with expanding revenue sources in their entirety but they could have shared such revenues with the provinces in proportions to be prescribed from time to time.

In 1877, the finances of the Government of India were again dislocated owing to heavy expenditure on famine relief, and chiefly with a view to easing the pressure on the central exchequer, new financial arrangements were made with the provinces. More departments were transferred to provincial management, and to meet expenditure on them certain minor heads of revenue were also transferred. The chief motive for the transfer of revenues was that they would thrive under the fostering care of the provincial Governments. 'It may be very wrong,' said Sir John Strachey, 'but it is true, and will continue to be true while human nature remains what it is, that the local authorities take little interest in looking after the financial affairs of that abstraction,

the supreme Government, compared with the interest which they take in matters which immediately affect the people whom they have to govern When local Governments feel that good administration of the excise and stamps and other branches of revenue will give to them, and not only to the Government of India, increased income and increased means of carrying out the improvements which they have at heart, then and not till then shall we get the good administration which we desire; and with it I am satisfied that we shall obtain a stronger and a more real power of control on the part of the central Government than we can now exercise '[1]

Accordingly negotiations were opened with the various provinces for settlements on a new basis. The first of these settlements was with the North-Western Provinces in 1877 According to the contract, certain additional services were transferred to the provincial Government, namely land revenue, general administration, law and justice, and miscellaneous The following heads of revenue were also transferred to provincial management (1) Government estates (*tarai* and *bhaber*), (2) stone-quarries, (3) excise, (4) stamps, (5) law and justice, and (6) miscellaneous (with some exceptions). For two years the provincial Government were to give only a half of any net increase that might result from their management of the revenues; but after that period the arrangement was to be open to revision 'While the Government of India is most desirous that the local Government should share largely in any increase of revenue to which improved administration may lead, it is evidently reasonable and necessary that the imperial revenues should share in this increase '[2] Thus the Government of India jealously guarded the right to share in the increase of revenue, and did not want 'to surrender any portion of the normal growth of these revenues'

The amounts of expenditure for the several transferred heads were calculated on the basis of the normal expenditure at the time, but a reduction of 5 per cent was made in order to relieve the central exchequer, that is to say, the local Government were to undertake the management of the new charges with Rs. 354,000 less than the imperial grants hitherto made for them. Thus the central Government obtained a fairly large relief by the transaction. A similar contract was made with Oudh, but it was only for one year.

Since the provincialized receipts did not meet the whole expenditure on the transferred heads, the old system of assignments had to be continued These lump sums came to almost as much as the transferred revenues. Thus the total revenues of the provincial Government were made up of

[1] Financial Statement, 15 March 1877, par 5

[2] Letter No. 852, 10 February 1877 to the Government of the North-Western Provinces.

(1) receipts from the transferred services;
(2) the yield from the transferred heads of revenue; and
(3) allotments.

In the contract made with Bengal in the same year, the revenue from excise, stamps, and law and justice was surrendered for five years and no part of the increase was to be handed over to the central Government; but this concession was made in consideration of the burden then placed upon the Bengal Government in connexion with railways and irrigation works.[1] The contracts with the Punjab and the Central Provinces were for three years and the terms were much less favourable The Government of Madras declined the offer as it was 'so unfavourable as to allow of the anticipation of nothing but failure, public dissatisfaction and aggravated embarrassment' if the provincial Government attempted to work it.[2] The contracts with Burma and Assam were made only in 1879, and were based on the system of divided revenues which was subsequently adopted in regard to all provinces in 1882.

In 1877, the Government of India obtained a total relief to the extent of Rs. 2,400,000 from these transactions In addition to this the responsibility for maintaining public works of local utility (especially canals) was shifted on to provincial shoulders and this also meant financial relief to the central Government.[3]

The main defect of the new system was that the transferred revenues were not sufficient to meet the charges The provincial Governments had direct interest only in the revenue-heads transferred to them. This produced a division of interests, and naturally provincial authorities could not be expected to foster all the revenues equally.

In every way, the new arrangements were more favourable to the central Government than to the Provinces. The former shifted certain inconvenient burdens to provincial shoulders and thereby saved expenditure, while the latter increased their burdens without any perceptible enhancement of their responsibility or status Although more services were transferred to the provinces, the tone of the new arrangements was less liberal than that which characterized Mayo's measure.

§2. *Further Restrictions on Provincial Governments*

In 1877, additional restrictions were laid on provincial finance by a Resolution of that year.[4] These restrictions were perhaps necessitated by the increased financial powers of the provincial Governments, but the freedom of the provinces was thereby

[1] Letter to Bengal, 29 March 1877, No 1899
[2] D.O. Letter of 24 December 1877 [3] Financial Statement, 1877-8.
[4] Financial Department Resolution No 1709 of 22 March 1877

circumscribed to a great extent. As this resolution remained in force for long, it requires careful examination.

Without the previous sanction of the Government of India, (1) no new taxes were to be imposed nor any change made in the existing system of revenue management, (2) no new service was to be undertaken except when the provincial Government showed that they had funds to do so, (3) no appointment carrying a salary of Rs. 250 or above was to be abolished or its pay reduced; (4) no railway line of through communication was to be abandoned or allowed to fall out of repair, (5) no alterations were to be made in the form of procedure of public accounts, and (6) services previously rendered to other departments at the charge of transferred departments were to be continued as before, and no services rendered to the transferred departments by other departments were to be increased [1]

Most of the restrictions imposed by the financial Resolution of 1870 were also repeated on this occasion. Minute details of local administration were to be communicated to the central Government. Returns were to be made quarterly through the several administrative departments of the Government of India, showing every change made in the pay of officers, every new office created or existing office abolished, and all unusual or extraordinary charges incurred were to be detailed.

Local Governments were also to communicate their executive and financial proceedings to the Government of India. The Governor-General in Council would not relinquish the general powers of supervision in any department, but he would as far as possible avoid interference with the details of administration of the transferred revenues and services.

Moreover, 'the grants made to the local Government, for all the services entrusted to its administration were to be a consolidated grant, no claim was to lie against the imperial treasury on the ground that the cost of the services exceeded the amount at which it was estimated in the calculation of the consolidated grant' [2]

From 1871, the financial estimates of the Government of India contained only a single entry entitled Provincial Services. It was subsequently found to be a mistake to exclude the details of provincial revenue and expenditure in the general imperial statements. They formed an important part of the expenditure of the country, and therefore in 1877 it was laid down that details of provincial receipts and expenditure should be given in the central Government's financial statements [3]

Further, provincial Governments were not to exhaust the balances to their credit in the imperial treasury. Overdrawing

[1] This last restriction sought to remedy the defect mentioned above, but it was not effective enough. [2] §7

[3] Finlay, *History of Provincial Financial Arrangements*, p. 10.

was not to be permitted. However, the conventions that subsequently arose in this matter demand some notice.[1] The balances of provincial Governments were merged in the general cash balances of the Government of India. These formed book credits on which the local Governments could draw when necessary. However, in this matter these Governments had a privilege denied even to the Government of India, whose expenditure had, as a general rule, to be covered by the year's revenue. As the provincial Governments dealt with services in which continuity of expenditure was of primary importance, it was considered necessary to allow them greater latitude. They were allowed to spend more than their current revenues, if they could find money without depleting their balance credits beyond a prescribed minimum figure. The system led to the apparently paradoxical but inevitable result that if a provincial Government spent less than its current revenue the surplus balance diminished the imperial surplus, while the excess of provincial expenditure over income increased it. If, for instance, Madras had a current revenue of Rs. 3 crores and spent only Rs. 2·8 crores, the remaining Rs. 20 lakhs which went to its balances were, under the terms of the provincial settlements, not available for utilization, except in cases of grave emergency, by the Government of India, which consequently had a liability of Rs. 20 lakhs in respect of the unspent money. This was recognized by deducting the amount from what would otherwise be the imperial surplus of the year. On the other hand, if Madras spent Rs. 3·2 crores, the excess of Rs. 20 lakhs was withdrawn from balances for which the Government of India had already made itself responsible in a preceding year, and consequently for imperial purposes the total expenditure of the current year would be reduced by Rs. 20 lakhs and the imperial surplus correspondingly increased.

It was also laid down that the provincial Governments were not to lend from the balances to their credit in the imperial treasury.[2]

Thus, by the arrangements of 1877-8, the position of the provincial Governments in relation to the central Government did not materially improve, it became worse in several respects. According to Ranade, the effect of the reforms was rather to tighten the grip of the Government of India over provincial administrations. Mayo looked forward to the gradual increase of the status and responsibility of the provincial Governments, but that idea did not find favour for long. In result, the provincial Governments remained mere executive agents of the central Government, with little authority to transact business on their own account. 'The whole scheme was reduced', wrote Ranade, to a mere departmental arrangement for avoiding interference in

[1] Financial Statement, 1907-8, pars. 83-8.

[2] Six of the Resolution.

the details of local administration.' Perhaps it was premature, at the time, to devolve greater responsibility on the provincial Governments.

In 1878 the Government of India issued another Resolution which made some material changes in the system From 1860, it was accepted by the Government as a fundamental rule of their budget system that the expenditure of the year should not exceed the amount provided for in the budget estimates. As the Resolution of 1877 was silent on the point, there was a doubt in the minds of provincial authorities whether this principle still applied to the changed system, and one Government actually sanctioned expenditure not provided for in the budget. The Government of India therefore made it clear by a special Resolution[1] that during the currency of a budget a provincial Government should not, without reference to the Government of India, sanction expenditure which had the effect of increasing the whole provincial expenditure above the amount provided for in the budget The reason given was that the central Government made their arrangements for ways and means after taking into consideration all the expenditure of local Governments as shown in the budget There was some correspondence with Bengal in connexion with this matter. That Government asked for additional expenditure to be met from its provincial balances. The central Government disallowed it on the ground that it was not budgeted for However, the Government of India were prepared to waive this right if the new expenditure asked for was covered by a corresponding increase of revenue over the budget figures

In 1879, owing to the critical position of the central finances arising from the Afghan War, the Government of India asked the provinces to practise strict economy and to postpone all optional expenditure, especially on public works above a certain level of cost. Eventually, these measures were found insufficient, and the provincial assignments for the year 1880-1 were reduced below the amounts settled under the several contracts in force The total contribution thus taken from the provincial Governments came to Rs. 67 lakhs, one-half in 1879-80 and the other half in 1880-1 This meant additional taxation [2]

§3 *The System of Shared Revenues, 1882-3*

The inadequacy of the financial arrangements made in 1877 soon became patent The revenues transferred to the provincial Governments were scanty, and the bulk of provincial expenditure had to be met by lump sums assigned by the Government of India The provinces had no share in land revenue which was then much the largest revenue source in India, and therefore they had no interest in fostering it. It was therefore considered

[1] Financial Resolution, 12 September 1878 [2] See ch. XVIII.

advisable to give the provincial Governments some share in the more important branches of revenue, thereby creating in them an abiding interest in fostering revenue.

The credit for devising a remedy should go to Sir John Strachey; but the practical application of the principle was carried out mainly by Lord Ripon and his Finance Member, Major Evelyn Baring.[1]

The principle of the new system was that 'instead of giving local Governments a fixed sum to make good an excess of provincialized expenditure over provincialized receipts, a certain proportion of the imperial revenue of each province should be devoted to this subject'. Certain heads of revenue, such as post office, telegraphs, mint, and others of a definitely central nature, were (with minor local exceptions) wholly reserved as *imperial*. Those essentially of a local nature were made *provincial*. Between these lay certain important heads like forests and registration, and these were divided in proportions, for the most part equal, between the imperial and provincial Governments. This latter item rectified the deficiency of the provincial revenues, which were otherwise not enough to meet provincial expenditure. The sum thus taken was a fixed percentage of the realized revenue and not a lump assignment. The object of this new step was to appeal to the private interest of the provincial Governments.

This new step also arose out of sheer necessity. In 1877, the Government of India found it difficult to enter into contracts with Burma and Assam on the same terms as with other provinces. The revenues assigned to Burma according to the old contract were found normally insufficient, and every year a large special grant had to be made to that province for balancing its budget.[2] The demoralizing effects of this were realized and the need for a new basis was strongly felt. The case of Assam also presented a similar difficulty. It was found on examination that the finances of these two provinces could be set right only by each of them sharing certain major revenues with the central Government. Thereby, the province would get an elastic source of revenue, which when properly nurtured—and there was an incentive—would give it ample revenue to meet its growing needs. Besides, those were then comparatively undeveloped provinces and required special fostering as they had great potentialities before them.

Thus contracts on a new basis were entered into with Assam and Burma by Sir John Strachey himself in 1879. Over and above the normal provincial sources, a fifth of the land revenue in Assam was handed over to meet provincial expenditure. Burma obtained a sixth of the land revenue, as also of the rice export duty, salt receipts and forest revenue. There was a special

[1] Resolution of the Finance Department, No. 3353, 13 September 1881, par. 4.
[2] Financial Department Resolution, 26 March 1879.

reason why in Burma salt and customs revenue could be treated as provincial; for their incidence was definitely on the people of the province, while in India proper it would be impossible to locate their incidence accurately. Hence the utilization of those heads of revenue to meet the special needs of Burma.

Sir John Strachey had intended to revise, on the above basis, the contracts with other provinces also, but he retired before he was able to carry this out. Baring, who succeeded him, stuck more or less to the principles enunciated by his predecessor. He had the support of Lord Ripon, who was well disposed towards all measures calculated to increase the freedom and happiness of the people He believed that a large measure of decentralization was essential to the economic improvement of the country, and favoured every measure that would enlarge the powers of provincial Governments and local authorities.

The important Resolutions which Ripon issued in 1881 and 1882 not only enlarged provincial powers but also dealt with the need for the organization of local bodies, namely, district boards, municipalities and taluk boards, as a means of educating the people in the art of self-government. While Lytton neglected the larger objects of decentralization enunciated by Mayo, Lord Ripon was specially anxious to give effect to them by developing an efficient system of local self-government. This will be dealt with more fully in the next chapter.

Another important change embodied in the new resolutions was in respect of the financing of war and famine, two of the special circumstances that often dislocated Indian finances.[1] It was clear from long experience that the responsibility for famine relief should not be placed solely on the provincial Governments; help was to come from the central Government at a certain stage. But under the financial arrangements made in 1877, the Government of India were not expected to help until the resources of the provincial Governments were exhausted Ripon found this rather hard, and he decided that help should be given at an earlier stage. But the conditions on which relief should be granted were defined more stringently.[2] Only in the case of severe famine was help to be expected, and even then the provincial Governments were not entitled to help until (1) their current revenue was exhausted, and (2) two-thirds of the excess of the accumulated savings of past years, over the ordinary working balance, had been spent. Those limits were fixed with reference to the resources of each province and not to the amount expended on famine relief. It was also decided that aid should be given at an earlier stage than before, and provision was made for devoting the savings of provincial Governments in normal years to supplement the ordinary public

[1] Baring mentioned four peculiar dangers to which Indian finance was liable: war, a diminution of opium revenue, fall of exchange, and famine (Financial Statement for 1883-4). [2] Resolution, 30 September 1881.

works grant, and to push on famine relief works. Not more than a fourth of such surpluses was to be used for paying interest on imperial loans raised for famine relief within the province.[1]

At the same time, the Government of India declared that it could make no demand on provincial Governments, except in the case of disaster so abnormal as to exhaust the imperial reserves and to necessitate the suspension of the entire machinery of public improvements throughout the Empire.[2] The Secretary of State objected to this too liberal concession to the provinces, especially because it would have to be proved to provincial Governments that such necessity really existed; but Ripon replied that it was too late to retrace the steps taken.[3]

The arrangements of 1881 on the whole relieved the provincial Governments of their obligations to the central Government on abnormal occasions. In 1870, the special circumstances mentioned as necessitating the modification of normal provincial arrangements were: (1) heavy loss of opium revenue; and (2) national disaster, such as war and famine. In 1881, the Government of India very nearly relinquished their right to call on provincial Governments for help. In case of national disaster, help would be asked only after the exhaustion of imperial reserves and resources. The responsibility in the event of famine was still left with the provincial exchequer, but it was entitled to assistance from central resources. Besides, the Government of India had to meet the frequent losses by exchange and fall in opium revenue.

Nevertheless, the provincial Governments readily came to the help of the central Government whenever called upon to do so. Within the next 15 years three such occasions arose—in 1886-7, 1889-91, and 1894-5. Twelve lakhs of rupees were thus contributed by the provincial Governments.

§4. *The Provincial Contracts, 1882-3*

Separate financial settlements were made in 1882 with the major provinces according to the provisions detailed above. Madras, too, which declined the offer of 1877, came into line with the other provinces this time. The settlements were made for five years, although the Secretary of State was against fixing this period for all the provinces.

The principal revenues were classified as follows:

I. *Imperial*:

1. Customs duties, except in Burma[4]
2. Salt revenue, except in Burma
3. Opium revenue
4. Post office receipts

[1] *Gazette of India*, 1 October 1881, p. 450. [2] Financial Statement (1882-3), p 10.
[3] Letter, 16 February 1882. [4] See §2.

5. Railways
6. Tributes
7. Telegraphs
8. Military public works
9. Gain by exchange transactions

II. *Provincial* :

1. Provincial rates
2. Ordinary public works
3. Receipts from law and justice
4. Education
5. Police
6. Stationery and printing
7. Interest on provincial securities
8. Provincial railways
9. Medical receipts
10. Miscellaneous items (except gain by exchange, premia on bills, etc)
11. Minor departments
    In Burma only—Fisheries
    In the North-Western Provinces and Oudh only—Receipts from *Tarai*, *Bhatar* and *Dudi* estates; rents on water mills and stone quarries
    In Bombay only—Rents of resumed service lands and service communications

III. *Divided* :

(Unequal division)

1. Land revenue (at first only a fixed percentage; it was given to the province to meet the expenditure uncovered by revenue, but subsequently it became a regular divided head)

(Equal division)

2. Forests (except Burma)
3. Excise
4. Assessed taxes (chiefly income-tax, then called 'licence-tax')
5. Stamps
6. Registration

As regards expenditure, the division of liabilities followed, as a general rule, on the corresponding head of receipts But as the expenditure devolving on the provincial Governments was larger than the revenues assigned to them, the necessary balance was in the case of each province to be made up by a percentage on the land revenue (and in Burma on salt, forest revenue and rice duty, as mentioned above). The local Governments received the same financial power in respect of divided heads of expenditure as in regard to those which were or had been entirely provincial.

The result of the arrangement was that about three-fifths of the revenue of British India, amounting roughly to Rs. 42 crores, and about one-fourth of the expenditure amounting to Rs. 19 crores were provincialized. Thereby the provincial Governments were given an interest in the greater part of Indian revenue, and were made responsible for its collection. Thus, these Governments had the whole revenue under heads which produced Rs. 4 crores, half of the revenue under heads which produced Rs. 8 crores, a certain percentage of other heads (chiefly land revenue) which produced Rs 23 crores, and a nominal share in revenues which produced Rs. 7 crores [1] Evidently this was an arrangement calculated to appeal to the self-interest of provincial Governments.

The following grants were also made to the provinces, earmarked for definite purposes Rs. 770,000 for improving the position of subordinate civil services, Rs 200,000 for provincial public works in Madras and Rs. 100,000 for additional *kanungos* in Oudh. At the same time, certain revenues were abandoned in the North-Western Provinces.[2] These concessions involved a loss to the imperial treasury, but as Baring told the Legislative Council in 1882 : ' It is the provincial Governments and not the Government of India who are brought into immediate contact with the people. They supervise the whole of the administrative work of the country ' The results of these contracts can be seen from the following statement of the budget position between the years 1882-3 and 1885-6.

ANNUAL SURPLUSES AND DEFICITS

Provinces	1882-3	1883-4	1884-5	1885-6
Madras	108,421	10,820	−87,284	146,692
Bombay	−149,894	−2,585	6,006	291,976
Bengal ...	539,611	146,027	48,910	26,777
N -W Provinces and Oudh	281,222	357,630	−69,276	−180,060
The Punjab	−110,966	−15 765	−41,545	42,447
Central Provinces	33,775	76,212	18,047	22,080
Assam	13,887	−5,216	−40,577	25,299
Burma	171,207	−90,090	−89,725	nil

During the period of five years the contracts were not to be modified, and the provincial Governments had full freedom to control expenditure and utilize any increase of revenue that took place in the meantime. But on the expiry of that period the terms of the contract were liable to revision according to the actual conditions of the province. Even in the provincial contracts of 1882-3, which were drawn up in the liberal spirit of Ripon, the Government of India reserved to themselves the right of benefiting

[1] Financial Statement, 1882-3, [2] ibid,

by ' the increments of revenue which arose from the growing wealth and prosperity of the country '. Subsequently, the right was even more strictly laid down in connexion with the Bengal agreement. ' The financial administration of India is necessarily a whole. For the sake of diminution of friction and other well-known objects the imperial Government delegates a share in the administration to local Governments.' As the Government were making only a rough calculation of the revenue of the province, ' it cannot bind itself to this proportion for ever, because the calculation being rough is liable to be vitiated by unforeseen failure of resources or growth of charges whether in the share of financial administration which it retains or in that which it delegates '.[1] Therefore the Government insisted on periodical re-examination This came somewhat like a reaction to Ripon's liberal policy and as we shall see, this became a cause of friction and waste in subsequent years.

Another restriction was imposed in 1884 upon the financial freedom of provincial Governments In the three years preceding 1884, these Governments had been spending the large balances that had accumulated during the Afghan War, when the Government of India had temporarily checked provincial expenditure. Moreover, the central Government had refunded to them the sum of Rs. 690,000 contributed during the war. This abnormal expenditure alarmed the supreme Government, which therefore adopted measures to prevent excessive fluctuations in the finances of local Governments It was strictly laid down that the provinces should not exhaust their balances beyond a prescribed minimum.

The spirit of the new system as initiated by Lord Ripon was generous and distinctly calculated to enlarge the powers of provincial Governments; but in practice its liberal features were whittled down to such an extent that the provinces before long found that although they had a greater field to administer there was not a corresponding increase in their financial powers. In India, to a greater extent than in any other country, executive rules and secretariat procedure often stood in the way of liberal[2] measures being liberally applied At any rate such was the case when a benevolent Viceroy initiated some new policy or promulgated some law which had received faint support at home and little sympathy from the permanent staff of the Government of India It is thus that many of Lord Ripon's measures did not produce the expected results. The financial arrangement which he made between the central Government and the provinces was fair to both, but not much of its spirit remained after it was ground and put into shape in the official machine of the Calcutta Secretariat.

[1] See also Gokhale's evidence before the Indian Expenditure Commission, IV, p. 215.

[2] Note by T. C. Hope (Financial Secretary), 9 June 1882; also Baring's Financial Statement for 1882-3.

However, the first contract under the new system was, on the whole, a success. In 1885, Sir Auckland Colvin, Finance Member, claimed that by the new arrangements, 'friction was reduced to a minimum'.[1] But the conditions soon changed, and when the contracts were revised in 1886-7, all the old ill-feeling seems to have revived with tenfold vigour.

[1] *Financial Statement* (1885-6), p 77. Besides, during Ripon's regime, imperial expenditure decreased and provincial expenditure increased slightly. See Gokhale's evidence—Indian Expenditure Commission, vol IV, p 215

CHAPTER XVIII

LOCAL SELF-GOVERNMENT

§1. *Local Finance, 1874-85*

THE period under review witnessed great progress in the sphere of local self-government. Local committees came into being throughout India, and they devoted their funds (mainly drawn from cesses) for education and minor public works. In provinces like Madras and Bombay, where local committees existed previously, they made great advance Municipalities also increased in number and usefulness and in many provinces the elective element became stronger.

However, these new institutions did not meet with much active sympathy from district officers in those days.[1] As Ripon wrote to Gladstone, this was really inherent in the Indian system of administration. 'India is governed by a bureaucracy,' wrote he, 'which, though I sincerely believe it to be the best that the world has ever seen, has still the faults and the dangers which belong to every institution of that kind; among these faults is conspicuously a jealousy of allowing non-officials to interfere in any way whatever with any portion, however restricted, of the administration of the country '[2] Consequently, as he observed on another occasion, local bodies were 'over-ridden and practically crushed by direct official interference'

But the arrival of Ripon as Viceroy changed the situation. He is rightly called the 'Father of Local Self-Government' in India A democrat by firm conviction, Ripon believed that effective training in democratic methods could be given by means of local self-government In one of his Resolutions[3] he wrote :

> It is not primarily with a view to the improvement of administration that this measure is put forward and supported. His Excellency in Council has himself no doubt that in course of time, as local knowledge and local interest are brought to bear more and more freely on local administration, improved efficiency will in fact follow. But starting there will doubtless be many failures calculated to discourage exaggerated hopes, and even in some cases to cast apparent discredit upon the practice of self-government itself.

Lawrence, and even Mayo, considered devolution of powers on local self-governing institutions merely as a means of tiding over financial stringency But Ripon considered it as a means of giving political training to the people of the country. Even at some

[1] Lucien Wolf, *Life of the First Marquis of Ripon* vol II, p 95
[2] ibid , pp 95-6 [3] Resolution, 18 May 1881, par 5,

expense to efficiency he wanted to teach them how to manage self-government in the local sphere and thereby hoped to make them ultimately capable of controlling administration in wider and higher spheres. Yet he was not unmindful of the administrative advantage to the Government resulting from this development. In the Resolution[1] already quoted he observed :

> The task of administering is yearly becoming more and more onerous as the country progresses in civilization and material prosperity. . . . The cry is everywhere for increased establishments. . . . The universal complaint in all departments is that of over-work. Under the circumstances it becomes imperatively necessary to look round for some means of relief, and the Governor-General in Council has no hesitation in stating his conviction, that the only reasonable plan for the government, is to induce the people themselves to undertake, as far as may be (possible), the management of their own affairs, and to develop or create, if need be, a capacity for self-help in respect of all matters that have not, for imperial reasons, to be retained in the hands of the representatives of government.

Hence his insistence on the non-official members being in the majority in local bodies.

§2. *From Provincial to Local Finance*

Ripon decided, soon after his arrival, to take another step forward on the path chalked out by Mayo He was convinced that it was not sufficient to delegate financial powers to the provincial Governments; to him it was equally necessary to make a similar transfer from the provincial Government to the local authority. What Mayo did for provincial finance, Ripon did for local. This was the central idea of his famous Resolution of 30 September 1881, which said : 'The provincial Governments while being largely endowed from imperial sources may well in their turn hand over to local self-government considerable revenues at present kept in their own hands, but similar in kind to many which have long been " locally " managed with success by committees, partly composed of non-official members and subject only to a general remedial control reserved to the State by the legislature. At the same time such items should generally be made local as the people are most likely to be able to understand the use of and to administer well.'[2]

However, it was not Ripon's intention to increase the burdens of local authorities, and therefore care was taken to transfer revenues for meeting the new services to be entrusted to them. The revenues transferred should be 'of such a character as to afford a reasonable prospect that by careful administration, with all the advantages due to local sympathy, experience and

[1] Resolution of 18 May 1881.
[2] Resolution on Local Self-government, No. 3353 of 30 September 1881.

watchfulness, they will so increase as to afford the means of meeting any additional expenditure which may be rendered necessary by the growing wants of each locality'.[1]

The above proposals were given effect to on the occasion of the renewal of provincial contracts in 1882. While preparing for these contracts, the Government of India asked the provincial Governments to undertake a careful scrutiny of provincial, local and municipal accounts with a view to ascertaining (1) what items of receipts and charges could be transferred from 'provincial' to 'local' heads, for administration by committees comprising non-official, and, wherever possible, elected members; (2) what items already 'local', but not so administered, might suitably be so done; (3) what redistribution of items was desirable in order to lay on local and municipal bodies those services which were best understood and appreciated by the people; and (4) what measures legislative or otherwise were necessary to ensure more local self-government.[2] 'Incidentally to the scrutiny,' he hoped 'that they would carefully consider ways of equalizing local and municipal taxation throughout the Empire, checking severe or unsuitable imposts, and favouring forms most in accordance with popular opinion or sentiment'.[3] At the same time the extension of the elected element in such bodies was to be considered

On 18 May 1882, a further Resolution was published in which the proposed lines for the introduction of local self-government were more definitely laid down

The policy thus indicated was accepted by the provincial Governments 'on the whole loyally and in some cases cordially'.[4] The only serious opposition came from Bombay, which already possessed a fairly advanced system of local self-government, but that province also eventually came into line and 'yielded with a very fair grace'.[5] In his own Council, Ripon had a strong supporter in Baring, while the reception of the policy in the country was, as was to be expected, enthusiastic.

As a result of his policy, Local Self-government Acts were passed by the majority of the provinces whereby rural boards were instituted, both in the district and in the taluk (or *tahsil*) on a more or less elective basis, with wider powers than the old district committees possessed, and both these local bodies were based on the village which had been from time immemorial the unit of administration in the country. These boards worked through committees and gave ample opportunities for the co-operation of Government officers with local representatives This subject does not fall within the scope of the present treatise.

[1] Letter to the Secretary to the Government of Bengal, No 3513 of 10 October 1881.
[2] Resolution on Local Self-Government, No 3353 of 30 September 1881.
[3] ibid
[4] Lucien Wolf, *Life of the First Marquis of Ripon*, vol II, p 97
[5] Ripon to Kimberley, 21 May 1883, quoted by Wolf (ibid).

It was Ripon's fond hope that his scheme of local self-government 'will relieve the provincial authorities from some portion of the ever-growing details of the work of administration, will tend to reconcile the public to the burden of local taxation, and will lead to the more extended employment of the natives of India in the administration of public affairs, while conferring on them higher powers of control over all expenditure on objects of local importance'.[1]

However, his expectations were not fulfilled to any great extent. Although the provincial Governments tried to put his scheme into practice and the number of local bodies thus increased, the higher aims underlying the reform were far from realized, owing to difficulties which were, at the time, insurmountable

§3. *Some Statistics of Local Finance*

In 1882-3, there were 761 municipalities in British India (including the three presidency towns), and their total income came to £2,527,042. The sources of income and the heads of expenditure are given below :

Income	£	Expenditure	£
Taxation—		Establishments and collection	234,292
Octroi	745,746	Conservancy	353,598
Assessed taxes ...	198,167	Police and registration ..	206,349
Tax on houses and land.	578,102	Lighting and watering ...	156,383
Tax on vehicles, animals and ferries	311,580	Drainage	208,064
		Water works	268,390
Total taxation ...	1,833,595	Medical	109,507
		Education	70,752
Loans etc.	693,447	Public works (roads etc.) ...	637,632
		Interest on debt ...	191,607
Total ...	2,527,042	Total ...	2,436,574

[1] Letter to the Secretary to the Government of Bengal, No 3513 of 10 October 1881.

The following table shows the municipal income in the different provinces in 1884-5, classified under various heads :

Province	Total income	Taxation	Government Grants	Other heads
	Rs.	Rs.	Rs	Rs.
Madras (excluding Madras city)	1,774,890	1,005,187	130,916	638,787
Madras Corporation ...	1,260,674	808,021	103 911	348,742
Bombay	3,224,814	2,313,048	36,901	874,865
Bombay Corporation . .	4,210,846	3,014,301	90,000	1,106,545
Bengal	2,665,997	1,947,411	28,849	689,737
Calcutta Corporation ...	5,662,786	2,565,027	15,304	3,082,455
United Provinces ...	2,703,926	1,952,250	105,975	645,701
Punjab	2,792,902	2,372,034	29,148	391,720
Central Provinces ...	1,094,320	784,979	17,546	291,795
Assam	112,012	47,610	21,682	42,690

PART V

FINANCIAL POLICY, 1886-1904

CHAPTER XIX

FINANCES AND PUBLIC WORKS UNDER FALLING EXCHANGE

§1 *Growth of Expenditure*

AFTER the Government of India came under the Crown, complaints were repeatedly made that expenditure was growing too fast in India, that taxation was becoming heavy and that the burden of debt was increasing. In the days of the Company there were searching inquiries into the finances of India at the periodical renewals of the Royal Charter. But after the transfer, there was no such occasion for inquiry. According to Fawcett, 'many safeguards for economy were swept away and the substitutes which took their place have proved to be comparatively ineffective'.[1] Large powers of control were vested in the Secretary of State, and the India Council was supposed to exercise a strict watch over the financial administration of India. But, for many reasons, this control was not always effective. Differences of opinion arose among the highest authorities about the exact powers of the India Council, and in the result, the interests of India were sometimes 'sacrificed to the exigencies of political parties in England'.[2]

However, there have always been persons in Parliament who took a keen interest in Indian affairs, and owing to pressure from them, several inquiries were conducted by Parliament from time to time. The first of these was by a select committee appointed by Mr Gladstone in 1871, as a result of complaints about the increase of taxation and expenditure in India. Mr Fawcett and Mr (later Sir) M. E. Grant-Duff were members of this committee.[3] The committee was first concerned with the question of the permanent settlement and soon came to the conclusion that it should not be extended to other parts of India. It also took up questions of provincial and local taxation and increase of expenditure. Lord Lawrence, Samuel Laing, Trevelyan, Massey, Richard Strachey and several others who held important positions in India gave evidence before the committee. After sitting for four years, the committee was dissolved and it made no final recommendations. However, its minutes of evidence were published in four large

[1] *Indian Finance* (1880), p. 5.

[2] Sir Alexander Arbuthnot's minute of dissent. See Parliamentary Paper, C69 of 1879.

[3] Grant-Duff afterwards became Governor of Madras (1881-6).

volumes, and they contain valuable information about the administration and finances of India at the time.[1]

Fawcett kept up his interest in Indian affairs and, largely through his speeches in the House of Commons and his articles in the *Nineteenth Century* during 1879, the sense of responsibility of the House of Commons was again awakened [2] In 1880 Stanhope made certain criticisms in Parliament about the financial administration of India,[3] and this gave rise to a prolonged correspondence between the Government of India and the Secretary of State, which was published as a Parliamentary Paper in 1885.[4]

The next important inquiry was made in 1895-1900 by the Royal Commission on Indian Expenditure, which was appointed by Mr Gladstone, as a result of the financial stringency during the period 1890-4. Lord Welby was the President, and the Hon. G. N. (later Marquess) Curzon, Sir William Wedderburn, W. S. Caine and Dadabhai Naoroji were members. The Commission, after a prolonged deliberation, reported in 1900,[5] but little came out of it.

§2. *Increase of Expenditure between 1861 and 1885*

It cannot be said that any substantial increase in expenditure took place between 1861 and 1885. Owing to changes in the method of accounting, an accurate comparison is difficult. However, there is adequate material for a general comparison. The following table will explain itself.[6]

—	1861-2	Average of 1883-4, 1884-5	+Increase or −decrease
	Rs	Rs	Rs
Defence and foreign affairs .	16,55,70,000	19,15,80,000	+2,60,10,000
Civil administration (including works charged to revenue) ..	13,08,80,000	18,84,20,000	+5,75,40,000
Debt charges	5,09,60,000	3,78,80,000	−1,30,80,000
Total ..	34,74,10,000	41,78,80,000	Net increase +7,04,70,000

The increased expenditure of about Rs 7 crores was chiefly met by the normal increase in the old revenues and not, to any great extent, by new taxation. Of the taxes imposed for rectifying the financial stringency resulting from the Mutiny, income-tax was

[1] Vols I (1871), II (1872), III (1873), IV (1874), index volume (1874).
[2] Mr Hyndman, labour leader, also published two articles in the *Nineteenth Century* entitled ' Bankruptcy of India '
[3] *Hansard*, vol. 249 (1883), p. 261.
[4] Parliamentary Paper, C352 dated 13 August 1885.
[5] Report, Cd 131 of 1900 (one volume) and Minutes of Evidences (3 volumes).
[6] *Report of the Royal Commission on Indian Expenditure* (1900), p. 40.

the most important. But it was abandoned in 1873. Of the older taxes customs duties were given up, except in the case of spirits and a few exports. Salt duties stood in 1884 at nearly the same level as before the Mutiny. Thus the revenue remitted during the period came to a total of Rs. 5,37,70,000.

But in the meantime, some new taxes had been imposed, namely provincial rates and a licence duty; and the rates of the stamp duty and the excise duty had been increased. These produced about Rs. 5·2 crores in the years 1883-4 and 1884-5 (average), made up as follows provincial rates Rs. 2,77,40,000, licence duty Rs. 49,00,000, stamp duty Rs 1,24,00,000, and excise Rs. 70,00,000 (average of the years 1883-4 and 1884-5).

Therefore the increase of revenue during the period was chiefly due to the elasticity of the existing revenues The land revenue increased from Rs. 19·5 crores in 1861 to Rs. 22·3 crores in 1883-4.[1]

§3. *Increase of Expenditure, 1886-1900*

After 1886, there was a rapid increase of expenditure both military and civil. In 1884, the total expenditure of India was Rs. 71 crores. From that date the expenditure went on increasing, and amounted to Rs 110·4 crores in 1900 The causes of the increase were chiefly (1) increased expenditure on defence and (2) loss by exchange

During the period, 1886-1900, the expenditure on defence increased from Rs. 21·6 crores to Rs 24·6 crores, and by 1905 it had risen to Rs. 31·5 crores. This increase was chiefly due to the feverish activity on the North-West Frontier. The fear of a Russian advance into Afghanistan had been growing for some years and the Penjdeh incident (1885) greatly enhanced that fear. The Russian General Komaroff attacked some Afghans at Penjdeh, an important post on the route to Herat. This created great excitement in India The Indian army was immediately strengthened by the addition of 10,753 Europeans and 19,220 Indian soldiers (1886). Roads and railways were constructed on the frontier and fortifications erected on a large scale. This involved the pacification of the suspicious nomadic tribes on the frontier and an increased subsidy to the Afghan Amir. The war in Upper Burma added to the growing outlay on defence.

When the number of soldiers was increased, large numbers of horses were required; clothing and medical supplies had to be increased; ordnance factories, depots and arsenals had to be enlarged; and a greater number of transport animals, carts and gear had to be maintained.

In the meantime the rupee exchange had been declining fast. From 1*s.* 7⅛*d.* in 1884-5 it fell to 1*s.* 2½*d.* in 1893-4 and to

[1] ibid., p. 40.

1*s*. 1*d*. in 1894. With every fall in exchange there was a corresponding increase in the burden of the home charges. From Rs. 4·3 crores in 1885 the loss by exchange on these charges rose to Rs. 15 crores in 1894. When the exchange began to depreciate, the British officers in India, both military and civil, found their sterling income rapidly diminishing and their remittances to their families in England dwindling in value. There was a universal demand for relief. Many of the officials were under the necessity of remitting a considerable portion of their income to Britain for the support of their families and the education of their children. They therefore claimed an 'exchange compensation allowance', and this was granted, in respect of a part of their salaries, from 1893. The pay of the British soldiers in India was fixed in sterling and was paid in India at a rate much lower than the assumed rate of exchange. All these concessions involved a large increase in expenditure. It also became extremely difficult to make budget estimates. Successive financial statements repeated the tale of woe and for some years this became the chief point of discussion at the budget sessions of the Imperial Legislative Council. 'The uncertainty in respect of silver', said Sir Auckland Colvin, 'entirely neutralizes the most carefully formed forecast of the future and renders the task of budget-making in India almost illusory. The surplus or the equilibrium existing at the hour at which the statement is written may be turned into deficit before it sees light and nothing that the Government of India can do of its own authority will, in the slightest degree, affect the result'.[1] Thus the budget became a gamble in exchanges. The extra expenditure in rupees due to the actual rate of exchange being less than the former rate of 2*s*. to the rupee is given below:

Year	Rate assumed in the budget per Rupee	Average rate realized by the Secretary of State	Total extra charge involved	Year	Rate assumed in the budget per Rupee	Average rate realized by the Secretary of State	Total extra charge involved
	s *d*.	*s* *d*	Rs Crores		*s* *d*.	*s* *d*	Rs. Crores
1872 .	1 11 1	1 10 7	7	1886	1 6	1 5 4	5 6
1873 ..	1 10 5	1 10 3	9	1887	1 5 5	1 4 8	6 1
1874	1 10 3	1 10 1	10	1888	1 4 9	1 4 3	6 4
1875 .	1 9 8	1 9 6	14	1889	1 4 3	1 4 5	6 7
1876	1 8 5	1 8 5	25	1890 ...	1 4 5	1 6	5 5
1877	1 9 2	1 8 7	23	1891	1 5 2	1 4 7	7 2
1878	1 8 4	1 7 7	31	1892	1 4	1 2 9	10 3
1879	1 6 9	1 7 9	29	1893 .	1 2 7	1 2 5	11·2
1880 .	1 8	1 7 9	23	1894	1 2	1 1 1	15
1881 .	1 8	1 7 8	25	1895	1 1	1 1 6	14
1882 ...	1 8	1 7 5	31	1896	1 1 7	1 2 4	12 1
1883 .	1 7 5	1 7 5	34	1897 .	1 2 4	1 3 3	10 6
1884 ..	1 7 5	1 7 3	35	1898	1 3 3	1 3 9	9 3
1885 ...	1 7	1 6 2	43				

[1] *Financial Statement* (1886), p. 12.

§4. *Increased Taxation*

The sudden increase of expenditure caused by the foregoing circumstances was a great strain on the Government's finances In 1882, revenue resources amounting to over £3 millions were given up by the abolition of the customs duties and the *patwari* cess, and by the reduction of the salt duty. Even then, the year 1882-3 closed with a surplus of £700,000 and the year following had a surplus of £1,387,496. From 1884-5, deficits reappeared and the finances continued in a bad state till 1889-90.

Year	Net Revenue	Expenditure	Surplus or Deficit
	£	£	£
1884-5	41,521,367	41,907,813	−386,446
1885-6	42,637,047	45,438,773	−2,801,726
1886-7 .	44,735,940	44,557,513	+178,427
1887-8	45,342,843	47,371,675	−2,028,832
1888-9 . .	46,482,865	46,445,847	+37,018

In these circumstances, the Government was forced to impose new taxation. Customs duties were still considered a very objectionable mode of raising revenue and therefore direct taxation had to be resorted to. The licence tax was already an income-tax on certain classes, and even after raising the taxable minimum, it still pressed too heavily on the smaller incomes and too lightly on the higher. The official and professional classes paid hardly anything in the form of direct taxes. These defects were openly acknowledged by the Viceroy, Lord Dufferin, and by Sir Auckland Colvin, who was Finance Member from 1883 to 1887. In 1886, the Viceroy reminded the Legislative Council that most of the gentlemen present, especially lawyers and high Government officials, were free from all direct taxation. He admitted that that was true of himself and other members of his Government. 'There is not one of us', he said, 'who pays any really serious sum from his income into the Imperial exchequer.'[1] It was therefore decided to impose an income-tax and a bill was pushed through the Council in 1886 (Act II). Incomes below Rs. 500 were exempted from the tax. All taxable incomes were divided into four classes: (1) salaries, annuities and pensions, (2) company profits, (3) interest on securities and (4) other sources. Incomes from agricultural lands and from property used for religious or charitable purposes were exempted from the tax and this was the chief innovation in the new income-tax. The profits derived by municipalities from commercial undertakings were also exempted. In fact, the new tax was a licence tax and an income-tax rolled into one, or an income-tax superimposed on the old

[1] *Legislative Council Proceedings*, 4 January 1886.

licence tax. As the Viceroy put it: 'the licence tax is a one-storied house, and on the top of it, we are putting a second storey, but the order of architecture in both will be the same'.[1]

Nor was this income-tax imposed for a limited period, as were its forbears. The Finance Member was pressed for a pledge restricting the duration of the tax, but he cautiously avoided giving it, and added: 'Prudence is to a Financial Member what modesty is to a woman, and if he once throws it aside he must expect to descend to that fallen class from whom nothing more may be hoped for.' The non-official Europeans who had hitherto led the opposition to the income-tax were this time very moderate in their criticism; yet Kipling in his *Departmental Ditties* has represented Colvin as *Rupaiyat of Omarkalvin*, plying the begging bowl among his European countrymen. Mr Mandlik was surprised that, rather than reimpose the cotton duty, the Government had decided to impose an income-tax which was bound to press hard on the honest and lead to demoralization. Mr P. M. Mukherji suggested an amendment, raising the taxable minimum to Rs 1,000, but it was rejected. Mr (later Sir) William Hunter wished that payments for life insurance or deferred annuities should be deducted from the taxable income, and this was agreed to. The net proceeds of the income-tax came to Rs 1,27,75,100. This was Rs. 80½ lakhs more than the yield of the licence tax. In all, 300,000 persons throughout British India were assessed to the income-tax. Salaries contributed 30 per cent. of the total. The provisions of the tax as laid down in 1886 were in force without much modification till 1914.

In 1887, the salt duty was raised by executive order from Rs 2 to Rs 2-8 in India and from 3 annas to Re. 1 in Burma. Mr Westland, the Finance Member, did not expect any curtailment of consumption by the increase of duty. Objection was raised in the Legislative Council against the sudden increase of the salt tax by executive order, and Westland pertinently replied that 'it is always advisable, in the case of the imposition of new tariff duties, that the new measures should be taken suddenly and at once, so that all persons may, as far as possible, be placed upon a precisely equal footing'.[2] In 1888-9 there was a diminution in the quantity of salt on which duty was paid, but in the following year consumption increased.

§5. *Currency Difficulties*

In the early 'nineties there was a sudden fall of the rupee exchange. The finances of the Government of India again became dislocated and deficits were piled up, year after year. For some time, the Sherman Act of the United States, which required the

[1] *Legislative Council Proceedings*, 4 January 1886
[2] *Legislative Council Proceedings*, 27 January 1888.

Government of that country to purchase annually 54 million ounces of silver, prevented a rapid fall in the price of silver; but in 1892, when that Government decided to repeal the Sherman Act, the bottom dropped out of the silver market and there was a sudden slump. The exchange value of the rupee also fell

The results of the fall in the exchange, both on public and on private finances, were disastrous. In 1892-3, a surplus was anticipated, but a fall of one penny in the exchange rate brought about a deficit of Rs. 1·6 crores. Sir David Barbour, Finance Member, said in 1893: 'Our financial position for the coming year is at the mercy of exchange and of those who have it in their power to affect in any way the price of silver. If we budget for the present deficit of Rx 1,595,100[1] and exchange rises one penny we shall have a surplus; if it falls a penny we shall have a deficit of more than 3 crores; if we impose taxation to the extent of $1\frac{1}{2}$ crores, a turn of the wheel may require us to impose further taxation of not less magnitude; another turn and we may find that no taxation at all was required.'[2] It was not budgeting, but gambling.

The fall in exchange meant additional taxation and such taxation was not distributed equitably Nay, all taxation became inequitable in such circumstances. Those who paid land revenue under the permanent settlement were let off lightly, while those whose land had been lately resettled had to bear a much larger burden. The debtor-creditor problem also became more complicated, and a redistribution of wealth took place

The fall of exchange also greatly checked the investment of British capital in India. The capitalist abroad would expect to have a reasonable dividend on his investments in India, but with a falling rupee the gold value of the dividend was bound to fall. This was one of the causes of the slow progress of railway construction during the period

Not only investors in Indian securities, but all the Europeans who received their income in rupees lost by the falling exchange. That part of their earnings which salaried persons in India remitted to their families in England contracted in value

The Government of India had long been aware of these evils. Proposals for the adoption of a gold standard were made as early as 1864 by General Mansfield and they were supported by two Finance Members, Massey and Temple, and by the European Chambers of Commerce in the country. But the Government were feeling their way and were afraid that the hasty adoption of the gold standard would be a leap in the dark. After the rupee exchange began to fall, the Government of India became more convinced of the need for a gold standard in some form. In 1878, the Government proposed the adoption of a gold standard, 'with

[1] Rx. = Rs. 10.

[2] *Financial Statement* (1893), p 15.

silver coinage as the principal element in our currency and with a very limited gold coinage or without a legal tender gold coinage at all'. In fact, this was the precursor of the gold exchange standard. But this proposal was turned down by the Home Government. The idea of international bimetallism was then gaining ground and between 1867 and 1899 four international monetary conferences were held for solving the currency problem. After 1880, the Government of India gave full support to international bimetallism and hoped that it would rehabilitate silver in the currency system of the world; but, one after another, the conferences broke up without any settlement.

The position became much worse after 1890, and the Government of India had to take urgent action to remedy the situation. The Government proposed to the Secretary of State that the Indian mints should be closed to the free coinage of silver as a preparation for the adoption of a gold standard. The result was the appointment of the Herschell Committee in 1892. Lord Herschell had behind him the experience of the Gold and Silver Commission of 1888, of which he was President. Among the members were General R Strachey, who had an intimate knowledge of the finances of India, and Sir Thomas Farrar, who had served on the Gold and Silver Commission of 1888 The Government of India placed before the Committee an able memorandum based on the views of Sir David Barbour.[1] The principal suggestion of the Government was the stopping of the free coinage of silver, to be followed, after an interval, by the opening of the mints to the free coinage of gold, the interval to be utilized in studying the effect of the closing of the mints on the value of the rupee.[2] The Committee accepted this suggestion It was clear to them that bimetallism was out of the question; yet the complete demonetization of silver and the establishment of a gold standard did not seem advisable as an immediate step. In the result, the Committee recommended the closing of the mints and the continuance of the rupee as unlimited legal tender.[3] The Government accepted this recommendation, and in the same year amended the Coinage Act of 1870 and the Indian Paper Currency Act of 1882, in such a manner as to provide for the immediate closing of the Indian mints to the free coinage of silver At the same time, it was notified (1) that rupees would be given in exchange for gold coin and bullion presented at the Indian mints at the rate of 1*s.* 4*d* to the rupee, (2) that sovereigns and half-sovereigns would be received in payment of public dues, and (3) that currency notes would be issued from the Paper Currency Office in exchange for gold coin or bullion. For the time being, the goal aimed at was the gold

[1] Barbour was Member of the Royal Commission on Gold and Silver (1886) In 1888, he became Finance Member.
[2] J C. Coyajee, *The Indian Currency System*, p. 79
[3] *Herschell Committee Report* (1893), p 51.

standard in some form, but various circumstances, as we shall presently see, led to the evolution of what came to be called 'the Gold Exchange Standard'.

§6. *Customs Duties Again*

However, the closing of the mints did not immediately improve the finances of the Government. In 1894, the Government were faced with a deficit of Rs 3½ crores. The Herschell Committee recognized the need for fresh taxation in order to make up for the loss by exchange. 'Of all the suggested methods of adding to the revenue', it said, 'the reimposition of import duties would, according to the evidence before us, excite the least opposition; indeed, it is said that it would even be popular'.[1] The Government therefore proposed to impose a general tariff at the rate of 5 per cent on all imports, but the Secretary of State struck off cotton yarn and cotton fabrics from the list, although six members of the India Council, including Sir A. Arbuthnot and Sir A C Lyall, dissented In the Imperial Legislative Council also, several non-officials, both Europeans and Indians, stoutly opposed the measure. The new duties brought in only Rs 11 lakhs.

The financial stringency continued in spite of the additional taxation and the Government of India wanted to go further. The Secretary of State insisted that, if cotton yarns and piecegoods were to be included in the tariff, their inclusion must be accompanied by a countervailing excise duty on cotton goods made within the the country.[2] As the Government of India were in urgent need of additional funds, they agreed to an excise duty on cotton yarn made in Indian mills. Thus in 1895, import duties were imposed at the rate of 5 per cent on all cotton piecegoods and cotton yarn (above 20's) and along with that, a 3½ per cent. excise duty was imposed. There was stout opposition to the excise duty in the Imperial Legislative Council. It was admitted by the Finance Member, Mr Westland, that 'of the cotton manufactures of India, quite 94 per cent. is absolutely outside the range of any competition with Manchester, being the coarser quality of goods (24's and under) which Manchester cannot pretend to supply so cheaply as India'; and 'Manchester has an absolute monopoly to the finer qualities of goods';[3] and that of goods of the counts 26 and over, India can produce them under difficulties and in small quantities.'[4] Therefore only 6 per cent. of the Indian mill products were able to compete with Manchester goods and the excise duty raised a storm of protest not only in India but in England. The newly established National Congress found this a

[1] *Herschell Committee Report* (1893), par 39.
[2] Dispatch to India dated 31st May 1894
[3] Parliamentary Paper C. 7602 of 1896, pp. 11-12
[4] See *Legislative Council Proceedings*, 1895 (passim).

fit subject for its annual resolutions. The revenue from the cotton duties was about Rs. 3 crores.

On further representation from the Manchester manufacturers in 1896, the import duty was lowered to 3½ per cent. and the duty was made leviable on all counts. In the same year, the countervailing excise duty was extended to cotton goods of all counts manufactured in Indian mills. This change was carried out at a sacrifice of Rs. 51 lakhs of revenue in a year of famine and deficit.

From 1890, bounty-fed sugar from Austria and Germany invaded the Indian market, and to check those imports, the Tariff Act of 1902 imposed a countervailing duty on imported sugar, but it was subsequently abolished.

§7. *The Gold Exchange Standard*

Although the mints were closed in 1893 to the free coinage of silver, nothing was done to make gold coin legal tender. It was expected that the closing of the mints would force up the exchange value of the rupee and that a rising exchange would encourage the import of foreign capital into the country. This expectation was not immediately fulfilled. The repeal of the Sherman Act in the United States, coming soon after the closing of the Indian mints, depressed the gold price of silver, and silver bullion poured into the country. The rate of exchange therefore declined to about 1*s*. 1*d*. in 1894-5 But soon the tide turned and by 1897 the exchange rate rose to 1*s* 3*d* and to 1*s*. 3 7/8*d* in 1898, although in the meantime, the bullion value of the rupee had fallen to 10*d* [1] This was a great convenience to the Government in regard to its sterling remittances, but the commercial community was hit by the closing of the mints and the temporary suspension of the sale of Council Bills. A great monetary stringency developed and discount rates rose to high levels. The Government therefore felt the necessity for a final settlement in regard to the currency system of the country With this aim in view, the Fowler Committee was appointed in 1898.

The deliberations of the Fowler Committee attracted much attention Well-known economists like Professor Marshall and Sir Robert Giffen gave evidence before it, and the schemes submitted by Lindsay, Probyn, Raphael and Darwin were remarkable for their originality and insight.[2] The schemes of Lindsay and Probyn contain the first clear exposition of the gold exchange standard system which was eventually adopted in the country.

The Government of India had already given up its faith in international bimetallism and had become convinced that some kind

[1] Barbour, *The Standard of Value*, pp 207-8

[2] Lindsay was Deputy Secretary and Treasurer of the Bank of Bengal and Probyn was a retired Accountant-General of Madras.

of gold standard was inevitable. Sir David Barbour, a member of the Fowler Committee, was long a keen supporter of international bimetallism and his successor as Finance Member, Sir James Westland was formerly an ardent advocate of the silver standard. But both of them accepted the *fait accompli* The Government stoutly opposed those who suggested the reopening of the mints. 'In our opinion', they said, 'the silver standard is now a question of the past It is a case of *vestigia nulla retrorsum* The only question before us is how best to attain the gold standard?' But the gold standard they favoured was not the full-fledged gold standard, but a modified one It was a gold standard so far as foreign dealings were concerned and not in regard to internal currency.

The Committee agreed that the mints should not be opened to the free coinage of silver It also recommended that India should have a gold standard but a gold currency was only to be attained by successive stages, 'as there was little or no likelihood, even according to the most sanguine view, that for a long time to come, gold coins, even if declared legal tender forthwith, would find their way to any great extent into general circulation' [1] However, it recommended that the Indian mints should be opened to the free coinage of gold. The rate of exchange of the rupee was to be fixed at 1*s* 4*d* Not the least important of the Committee's recommendations was that the profits made by the coinage of new rupees should be used to form a gold fund, in order that the convertibility of rupees into sovereigns might be secured.

Most of the above recommendations were soon put into effect Free coinage of silver was finally abandoned and gold coins were made legal tender by the Indian Coinage and Paper Currency Act of 1899 The sovereign and the half-sovereign were made legal tender for Rs 15 and Rs $7\frac{1}{2}$ respectively, but the efforts to coin gold in India and to put gold into circulation were unsuccessful. The gold coins put into circulation soon found their way to the treasuries But the coinage of silver was pushed on effectively and a large gold standard reserve was built up.[2]

Thus the rupee was stabilized at 1*s* 4*d*. The system of a gold exchange standard which thus developed was subsequently copied by several foreign countries.

§8. *Improvement of Finances*

With the stabilization of exchange, a period of financial prosperity dawned for India In spite of the famines of 1896-7 and 1899-1900, which cost the Government Rs 7 crores and Rs. 9 crores respectively, by way of direct relief, the years 1898-9 to

[1] *Fowler Committee Report* (1898), par. 60

[2] J. C Coyajee, *Indian Currency System*, pp 125-32, also *Cambridge History of India*, vol VI, pp 323-5.

1901-2 showed appreciable surpluses and this improved state of affairs continued for some years.

Year	Revenue	Expenditure	Surplus or Deficit
	Rs (crores)	Rs (crores)	Rs. (crores)
1897-8 ...	96 4	101 8	−5 4
1898-9 ...	101 4	97·5	+3·9
1899-1900 ...	102·9	98 8	+4·1
1900-1 ...	112 8	110·4	+2 4
1901-2 ...	114 4	107 1	+7 3
1902-3 ...	116 1	111 4	+4·7
1903-4 ...	125·5	121 0	+4 5
1904-5 ...	127 2	121 9	+5·3

The reduction of expenditure in the years 1899-1900 to 1902-3 was also due to a large saving in military charges, resulting from the withdrawal of Indian troops from South Africa and China.

Owing to the improvement in the finances, it was possible for the Government to give liberal remissions of taxation. In 1903-4, the salt tax was reduced from Rs $2\frac{1}{2}$ to Rs. 2 per maund, and the taxable minimum under income-tax was raised to Rs 1,000 per annum. In this way revenue amounting to Rs. 1·8 crores was surrendered In addition, the Government also remitted two crores of arrears of land revenue owing to famine, and made large grants to the provincial Governments for education, public works, and medical aid. In spite of these liberal remissions and grants, there were considerable surpluses in those years, and in 1905-6, the salt tax was further reduced to Rs $1\frac{1}{2}$ per maund, the famine cesses imposed in 1877-8 were remitted, and larger grants were made to provincial Governments for education, police and agricultural improvements

§9 *Progress of Public Works, 1886-1901*

Railways

Although the Parliamentary Committee of 1884 recommended larger borrowings for public works and the Secretary of State raised the limit to Rs. $3\frac{1}{2}$ crores annually, the continued fall of the rupee exchange and the increased outlay on military equipment upset that programme. A large proportion of the allotment was used for the construction of strategic railways on the North-West Frontier. It was also decided in 1884 that the programmes of railway expenditure must be drawn up beforehand for a number of years The first triennial programme was for borrowing Rs. $3\frac{1}{2}$ crores annually. A second programme for the same annual outlay was drawn up in 1889 and to this was added the available grant

from the famine insurance fund.[1] In 1895-6 another programme was drawn up for 29·66 crores, but it had to be curtailed owing to famine and the frontier expedition. The programme of 1899-1900 was for Rs. 22·33 crores. This forecast had to be modified, as there was a growing need for capital expenditure on open lines. An inquiry into the railways was carried out by Mr T. Robertson in 1901-3.

The following table indicates the financial results up to 1901 :

	Total Mileage	Total Outlay	Gross Earnings	Working expenses	Expenses as percentage of gross earnings	Gain or loss
		(crores)	(lakhs)	(lakhs)		(lakhs)
1861 ...	1,587	34	99	58	59	...
1871 ...	5,072	90	6,59	3,68	56	...
1881 ...	9,890	1,41	14,32	7,07	49	−39
1891 ...	17,308	2,21	24,04	11,30	47	−2
1901 ...	25,363	3,39	33,60	15,72	47	+1,15

Until 1900, the financial results of Indian railways were rather poor. This was partly due to heavy expenditure on strategic lines and the slow progress of railway traffic; but we have to remember that in the calculation of the net gains were included the payment made in the form of terminable annuities to the guaranteed companies whose lines were purchased by the Government, and this was not a necessary charge on the income of the other railways. In any case, railways became a very profitable asset after 1900 and contributed substantially to the general revenues.

Irrigation Works

The outlay on irrigation works was even more parsimonious, in spite of the excellent financial results obtained from the older works. Till 1893, a fixed annual allotment of Rs. 55 lakhs was made for capital works, but in that year, it was increased to Rs 75 lakhs (except in famine years), and in 1899-1900 to 85 lakhs.

It was perhaps in the Punjab that the forward irrigation policy was most fully put into effect. The Lower Chenab Canal, which was originally intended as an inundation canal, was eventually turned into a perennial one and its banks, hitherto a waste, were turned into a flourishing colony by 1891, with large towns like Lyallpur and extensive wheat lands laid out in the most scientific manner.

[1] From 1885-6, a growing share of the famine grant was used for railways under revenue account For the 15 years from 1881-2, Rs 3 21 crores were thus used. During the same period, Rs 6 crores were spent from that grant for railways coming under Famine Relief and Insurance. See *Famine Commission Report* (1898), p. 327.

A word may be said here about the financial classification of irrigation works at the time under survey. It included all canals for irrigation and navigation and was divided into two main classes—'major works' and 'minor works'. Major works included 'productive' and 'protective' works. Most of the major works in northern India were river works or canals, but in Madras and Bombay Deccan, there were also purely storage works and some canals (like Periyar) with which large storage works were combined. The distinction between 'productive' and 'protective' works ceased to have any meaning. Some works classed as 'productive' later became a burden on revenue, and others (e.g. Swat River Canal) which were first classed as 'protective' eventually became highly remunerative [1] Minor works were not necessarily of small importance. Some of them were of large size and were highly remunerative. A great many of the minor works were of pre-British origin but improved by the Government, and others were constructed piecemeal. The chief difference between these classes of works was that the 'productive' works were financed by loans, 'protective' works from the famine insurance grant and 'minor' works from current revenue Up to 1902-3, the total capital outlay on all these works came to Rs 43 crores, and the area irrigated was about 14 million acres The Irrigation Commission of 1902 passed in review the whole progress and estimated the financial and other results

In 1900-1 the areas irrigated in the various provinces were as follows :

Province	Major works (productive and protective)	Minor works for which capital accounts are kept	Other minor works	Total
	Acres	Acres	Acres	Acres
Punjab ..	46,42,852	6,02,189	7,07,525	59,52,566
Sind . .	9,61,434	8,82,956	12,97,368	32,66,152
Bombay ..	84,472	39,922		
Madras .	29,15,271	5,11,603	31,73,250	66,00,124
Bengal	7,16,271	.	28,619	7,44,890
United Provinces ..	18,88,091	1,13,793	..	20,01,884
Burma ..	...	..	5,76,936	5,76,936

[1] *Report of the Indian Irrigation Commission* (1902-3), p. 75

In the following table are given the financial results attained on the Major Works during the year 1900-01.[1]

Province	Number of works	Capital outlay	Percentage of net revenue on capital outlay	Average per acre	
				Value of crops	Revenue assessed
		(Lakhs) Rs		Rs	Rs
Punjab ...	7	10,73 0	10 5	27 5	3 4
Sind ...	5	1,79 3	7 7	15 6	1 9
Bombay	9	1,87 6	1 2	77 2	4 8
Madras	9	7,29 6	8 5	36 7	4 1
Bengal . .	3	6,16 8	0 8	34 4	1 9
United Provinces	6	8,77 4	7 3	39 2	1 3
Total	39	36,63 7	7 1	31 6	3 4

[1] *Report of the Irrigation Commission* (1901-03), vol I, p 21

CHAPTER XX

PROVINCIAL FINANCE, 1883-1904

§1. *The Quinquennial Contracts*

FROM 1883 down to 1904, the financial relations between the Government of India and the provincial Governments were regulated by five-year 'contracts'. These contracts were based upon certain definite principles. The central Government retained in its hands certain administrative services which it was inexpedient to hand over to provincial Governments. It also reserved the revenues from these services, supplemented by such shares of other public revenues as were adequate to meet the expenditure falling on it. To the provincial Governments were handed over the remaining administrative services, to be managed with an assured income sufficient for the normal expenditure. But this income came not in the shape of fixed assignments (as in Mayo's system), but as a definite share of the revenues which those Governments collected. Being a share of revenue, there was a chance of its expanding with the increasing needs of administration.[1]

The quinquennial revision of contracts was the central feature of the whole system. Every five years the revenue and expenditure of the various provinces were examined in detail, and the agreements were revised with a view, mainly, to ensuring to the Imperial Government a proper share of any improvement in the revenues. Fixed proportions of the various heads of revenue were assigned to the provincial Governments on the principle of establishing a general equilibrium, and the necessary adjustments were effected by additions to, or subtractions from, the normal proportion of 25 per cent. of land revenue assigned to the provinces.

The generous spirit which characterized the provincial contracts of 1882-3 was largely modified owing to the adverse financial circumstances of the country on the eve of the revision of the provincial contracts in 1886-7. The fear of the Russian advance in Central Asia increased military expenditure, as mentioned above. The war in Burma, and the continued fall in exchange added greatly to the Government's embarrassments. These circumstances forced the Government of India to revise the provincial contracts in a manner advantageous to itself. It was decided to take a larger share of the divided revenues for the central treasury. In a lengthy digression in the course of his financial statement for

[1] Decentralization Commission, Minutes of Evidence, vol. VIII, pp. 122-3 [Mr J. S. (later Lord) Meston's evidence]; also vol. I, p. 33.

1887-8, Sir Auckland Colvin reminded the provincial Governments that the decentralization measure of 1870 was meant chiefly for the relief of the central exchequer at a time of financial stringency. A similar financial stringency had now arisen and a modification of the provincial contracts was necessary for the relief of the central Government. 'The interests of the local Governments in matters of finance are second to those of the supreme Government, upon which rests the sole responsibility for the maintenance of the financial credit of India.'[1] An examination of the provincial arrangements of the past showed him that at no time had the Government of India contemplated relaxing its control over the revenues when the periodical settlements came round.

Accordingly, Colvin enumerated four propositions in connexion with the revision of contracts in 1882; viz. (1) that the amount of the funds assigned to provincial Governments need not exceed, or equal, the amount of the expenditure assigned at the time when the contracts were made and provincial Governments would be expected to provide from their own resources the difference between the assigned revenue and expenditure; (2) that the growth of provincial expenditure during the term of a contract must be met from the growth of provincial revenue, except in cases where considerable expenditure was undertaken by provincial Governments to meet the wishes of the Government of India and to carry into execution projects pressed upon it by that Government; (3) that the Imperial Government reserved its claim, at the expiry of a term of contract, to such share as the circumstances of the time might make necessary in the increase of revenues which had accrued to the province during the term of the contract; and (4) that the power of enforcing reduction, on the occasion of a new contract, of the assignments of revenue made at the previous contract, was a condition implied in the system of provincial contracts and was uniformly acted on.[2]

Having decided to revise the provincial contracts on the basis of the above propositions, the Government of India appointed a Finance Committee to inquire into the state of the finances of the different provincial Governments. An exhaustive inquiry was made by that Committee and suggestions were given for framing the new agreements.[3] It also drew up the probable revenue and expenditure of each province under the new contracts. It was calculated that the provincial Governments would have a surplus of £640,100. The Government of India decided to take over this surplus and to add it to its own revenue.

In 1887 contracts on this basis were entered into with all the provinces except Burma and Bengal. The provincial Governments were to receive three-fourths of the increase in stamp

[1] *Financial Statement* (1887-8), p. 11 [2] Op. cit., pp. 11-12

[3] The members of the Committee were Sir Charles Elliot, Sir William Hunter, Justice M. G. Ranade and Justice Cunningham.

revenue and one-fourth of that in excise. The expenditure under those heads also was to be divided in the same proportions. A fourth of the future increase under land revenue was to go to Bengal, Madras, Bombay and the North-Western Provinces. In this way, the proportion of the land revenue assigned to the different provincial Governments continued to vary While Bombay received 60 per cent , Assam 62 per cent. and the Central Provinces 49 per cent , Madras was given only 29 per cent., the North-Western Provinces 25 per cent. and Bengal 32 per cent. Most provinces were left with revenues just enough to meet their needs at the time, and it was understood that a similar shearing would be carried out at every revision of the contract

The following table shows the condition of the provincial finances during the period of the contract of 1887

Province	Annual surpluses and deficits				
	1887-8	1888-9	1889 90	1890-1	1891-2
	Rs	Rs	Rs	Rs	Rs
Madras	+1,05,371	+1,13,932	+1,11,571	−1,36,739	−2,11,770
Bombay	− 21,571	+18,322	+11,361	− 1,23,887	− 53 189
Bengal	+1,31,007	−65,792	+1,02,517	−1,20,377	− 11,934
North Western Provinces and Oudh ..	−53,900	+15,949	+1,02,710	−12,511	−4,399
Central Provinces	+13,148	+22,583	−12,322	−31,573	+17,510
Punjab ...	+12,446	+32,142	+29,261	+31 367	−1,719
Assam	+7 751	+26,313	+20,090	− 17,871	+31,185
Burma	+77,028	+11,560	+64,072	+1,06,216	+50,598

In spite of the illiberal character of the contracts, the financial position of the provincial Governments did not grow worse; on the other hand, it was the central Government's finances that fell into a worse state owing to exchange difficulties and the Burmese War. The Government were therefore forced to raise additional taxation. The contrast between the growing prosperity of the provincial Governments and the growing poverty of the central Government struck the Secretary of State, and he proposed to the Government of India that means must be found for making the provincial Governments share in the financial responsibilities of the Empire The Government of India considered for some time the feasibility of terminating the contracts of 1887, but did not consider it expedient to take such a step, as a great deal of opposition was expected from the provincial Governments. Eventually, however, it was decided to levy a contribution, amounting to a total of Rs 74 lakhs, from all the provincial Governments except that of the Punjab [1] When the central finances improved in the following year, the provincial Governments, especially

[1] *Financial Statement*, 1889-90.

Bengal, strongly urged, though in vain, the return of the ' enforced benevolences '.[1]

§2. *Revision of Contracts in 1892 and 1896*

The revision of 1892 coincided with another financial stringency resulting from the worsening of the rupee exchange, and therefore the policy enunciated in 1887 was enforced with vigour on this occasion also. The provincial revenues had increased by Rs. 2 crores in the meantime, and it was decided to resume a fourth of the amount. The provincial Governments protested, but the Government of India pointed out that the only other alternative, namely, the imposition of further taxation, was inexpedient, and stuck to their guns. That the resumption of provincial revenues was not carried out in an equitable manner is clear from the following statement which gives the total increase of revenue in the different provinces and the amounts resumed

Province	Increase of revenue in 1891-2 (revised estimate) compared with the estimate for the contract of 1887-8 to 1891-2	Amount resumed by the Government of India
	Rs.	Rs
Madras	3,13,200	1,03,800
Bombay ..	3,99,200	1,31,100
Bengal	5,17,700	51,900
N.-W. Provinces and Oudh	53,300	56,900
Punjab	1,95,400	41,000
Central Provinces . . .	1,19,200	22,700
Assam	99,800	
Lower Burma	3,31,900	58,900

It will be seen from the above that while Bengal, which had an increase of over Rs. 5 lakhs, contributed only Rs 51,900, Madras with an increase of 3 lakhs had to contribute one lakh.

The collapse of the rupee in 1892 dislocated the central finances once again and the Government called upon the provinces to make contributions for relieving the central exchequer. There was again the usual protest, followed by the usual reply that fresh taxation was inexpedient.[2] A total contribution of Rs. 40½ lakhs was received, but as the finances soon showed an improvement, the Government of India was able to repay it.

The financial transactions of the period proved unfavourable to

[1] *Legislative Council Proceedings*, 1890.
[2] *Financial Statement*, 1894-5.

the provincial Governments and the state of their finances gave cause for increased anxiety.

Province	Annual surpluses or deficits				
	1892-3	1893-4	1894-5	1895-6	1896-7
Madras	−1,59,081	+33,636	+92,328	+44,118	−2,00,579
Bombay ..	−23,888	+19,443	−102,472	+1,00,690	−2,21,119
Bengal	−9,826	+36,887	+1,69,796	+1,49,808	−1,86,558
N -W Provinces and Oudh .. .	−16,752	−25,155	−1,65,987	−1,39,798	−1,64,740
Punjab	−1,06,050	−22,699	−24,811	−7,156	−64,073
Central Provinces .	−21,798	−60,772	−1,05,108	+19,653	−37,408
Assam ..	+9,336	+28,532	−27,122	+30,507	−25,421
Burma ...	+66,642	−90,653	−2,72,319	+2,26,505	+780

The terrible famine of 1896 reduced the revenue and increased the expenditure of all the provinces. The Governments of the North-Western Provinces and the Central Provinces were brought to the verge of bankruptcy and this necessitated large contributions from the Government of India.

When the contracts were revised in 1897, irrigation was provincialized in Madras, Bengal and the North-Western Provinces. The Governments of Burma, the Central Provinces and the Punjab were leniently dealt with, on account of the heavy burdens thrown on them by the famine. The central exchequer secured no financial benefit from the transaction.

§3. *Criticism of the Provincial Contracts*

By this time, the whole system of provincial contracts had become unpopular, not only with the provincial Governments which openly criticized the greed of the central exchequer, but also with public bodies and leaders of public opinion in the country, who for the first time took an active part in a financial controversy.

The Government of India defended the system on various grounds. In strict constitutional law, the whole revenue of India was administered by the central Government and the recently instituted system of decentralized finance was an arrangement primarily for the convenience and advantage of that Government. The bulk of Indian revenue was spent directly by the Government of India. If there was an increase in revenue, it must first benefit the taxpayer by remissions as well as by strengthening the central exchequer against crises. Further the settlement of a permanent contract, according to Sir James Westland, 'involves a dip into futurity, unwarranted by the long financial experience of the Government of India.' Indian finance was liable to be endangered by famine, war, fall of exchange, failure of opium trade and a

good many other calamities and contingencies, and all this had to be met primarily by the central Government. Nor did its responsibility end with the transfer of revenues to the provinces. The Government of India was ultimately responsible for the solvency of all the provincial Governments. Whenever disastrous famine broke out in any province, the central Government was bound to help from its resources. All these involved a heavy financial responsibility, which could not be properly exercised without the reservation of some power in its hands for revising settlements from time to time.

These reasons, however, did not satisfy the provincial Governments. They repeatedly told the central Government that the conditions imposed were unfair to them. They pointed out that while the revenues of the country were expanding, their own treasuries did not get an adequate share of the increase for purposes of local improvements. If they made economies and fostered the revenues, much of the resulting advantage was reaped by the central Government. There could be no certainty in administration so long as such a system prevailed. 'At every revision', said the witty Lieutenant-Governor of Bengal (Sir Alexander Mackenzie), 'the provincial sheep was summarily thrown on its back close-clipped and shorn of its wool, and turned out to shiver till the fleece grew again.'[1]

Human nature being what it is, it is too much to expect people to economize, so long as the fruits of that economy went to somebody else. This principle was seen best at work in the system of quinquennial revisions. At first, having little surplus funds in their hands, provincial Governments would try to economize, and later on when the revenue increased they would be tempted to incur fresh expenditure. In the last year of the contract they would try to spend all they could, because resumption of balances was sure to take place at the revision. Sir Alexander Mackenzie effectively[2] summarized the normal history of these contracts as consisting of 'two years of screwing and saving, and postponement of works, two years of resumed energy on a normal scale; and one year of dissipation of balances'. Besides, the revisions had an unsettling effect, and gave rise to much bickering and heartburning.[3] They broke the continuity of provincial administration, which was specially injurious in the matter of public works. Every revision had a disturbing and dislocating effect, especially on the important department of public works, where continuity is most needed. They also demoralized the provincial Governments. As the Governor of Madras[4] (Sir Arthur

[1] *Financial Statement* for 1896-7. [2] Ibid.

[3] For an open expression of these feelings, see *Financial Statement* for 1897-8, pp. 93-172.

[4] Discussion on Madras budget, 1896, quoted in *Expenditure Commission Report*, vol. III, p. 257.

Havelock) said . ' when we are in wealth we try to hide our money and spend it recklessly lest the supreme Government should lay hands on it When we are poor we try to give undue emphasis to our poverty.' It was equally demoralizing to the Government of India, because they were relieved of the consequences of their extravagance.

Not only did the system embarrass the provincial Governments; it also put off urgently needed improvements. Sir David Barbour, giving evidence before the Indian Expenditure Commission, said : ' I would rather see the central Government embarrassed than the provincial Governments starved.'

Further, the apportionment of revenues between the several provinces was unfair and unequal Some provinces were shorn more closely than others In those days, Madras and the North-Western Provinces bore the main brunt of imperial taxation.[1] This was due to the stereotyping of the inequalities that already existed before 1870.

Nor was the above merely the official view of those provinces. Public opinion keenly felt the injustice done to the provincial Governments. Although in the eyes of the people of India, both the central and provincial Governments were one and the same, they nevertheless were in a special manner interested in the prosperity of provincial finances, because while the central Government spent their large income mostly on subjects which concerned them only indirectly and remotely, the provincial Governments were spending money for purposes which directly and immediately contributed to the people's welfare; and naturally these Governments appealed more to their sympathy.[2] The Indian National Congress at its Calcutta session in 1886 passed a resolution disapproving of the system of provincial contracts and urging that the provinces should be granted larger financial responsibility. When the Royal Commission on Indian Expenditure[3] was appointed in 1896, the various public bodies in Madras, Bombay and Bengal sent representations *inter alia* against the system of provincial finance then obtaining. Dadhabai Naoroji, M P , was a member of the Commission and four prominent Indians gave evidence before it, viz. G. K. Gokhale, S. N. Banerjea, G. Subrahmanya Iyer, and D. E. Wacha representing, respectively, the Deccan Sabha of Poona, the Indian Association of Bengal, the Madras Mahajana Sabha and the Bombay Presidency Association. Their evidence carried much weight, especially in the matter of provincial finance. Mr Sayani (Bombay) and Mr Ananda Charlu (Madras) supported this view in the Imperial Legislative Council.

[1] This was especially pointed out by Mr Gokhale, although he represented Bombay, a province that gained by this policy. See *Indian Expenditure Commission Report*, vol III, p 217

[2] Gokhale, ibid , p. 215; see also p 259.

[3] Its president was Lord Welby, hence usually called ' Welby Commission ';

The remedy favoured by the Indian leaders and provincial Governments was a clean division between central and provincial revenues on the basis of a suggestion put forward by the four members of the Finance Committee of 1887. What they suggested would have practically amounted to the system adopted in 1919. They would divide all the revenues between the imperial and provincial Governments and do away with the divided heads The excess of imperial expenditure over imperial income should be met by provincial contributions. This must be the first charge on provincial revenues The provincial surplus should be the fund from which in the first place imperial necessities should be met before any increase could take place in provincial expenditure.

The above recommendations were adopted by Sir William Wedderburn and Dadhabai Naoroji in the minority report of the Indian Expenditure Commission They claimed that it would place Indian finances on a sound basis and bring it into line with the federal systems, and that it would remove the irritation between the central Government and the provinces, and enable provincial Governments to carry out progressive improvements in their internal administration It was also claimed that this would be a 'logical development' of the financial decentralization already effected However, this scheme had to wait for 20 years before it could materialize.

§4. *Improvement of Financial Relations, 1898-1903*

The periodical resumptions of provincial balances to the central treasury was not due to any inordinate greed on the part of the Government of India, but was due to the financial embarrassments to which that Government was frequently liable on account of the fall of exchange, the unsteadiness of opium revenue and other causes. In 1893, the currency was placed on a stable basis, and consequently the central Government had more leisure to consider the evils of the quinquennial contracts The Government of India, almost as much as the provincial Governments, recognized the need for greater certainty and stability in their financial arrangements with the provinces [1] But the recurring financial stringency of the central Government prevented this from being carried out From 1898, thanks to the stabilized rupee and the growing demand for opium in China, the finances of the central Government greatly improved, and year after year the budget showed heavy surpluses This enabled the Government of India to make liberal remissions of land revenue, to abolish the *pandhari* tax, and to reduce the *patwari* rate in Ajmer. In spite of such liberal remissions, the Government of India was able to make

[1] The defects are openly admitted by Government in the *Financial Statement* for 1904-5, p. 66 See also *Decentralization Commission Report*, vol I; vol. VIII, p. 123,

generous grants to the provinces for education, public works, police reform and other purposes. These grants supplemented the provincial resources and enabled the provincial Governments to balance their budgets The amount and distribution of these grants may be seen from the following table :

Province	1897-8	1898-9	1899-1900	1900-1	1901-2	1902-3	1903-4
	Rs	Rs	Rs	Rs	Rs	Rs.	Rs
Madras ...		16,96,000	3,49,000	.	42,14,000	17,00,000	16,50,000
Bombay ...	12,18,000	18,75,000	34,37,000	61,79,000	1,10,50,000	15,00,000	19,50,000
Bengal ...		17,00,000	...	.	.	16,00,000	12,00,000
N.-W. Provinces and Oudh ..	10,27,000	10,00,000		...	...	13,00,000	10,26,000
Punjab ..	...	5,00,000	95,000	5 98,000	16,40,000	12,00,000	16,76,000
Central Provinces	7,72,000	5,00,000	19,32,000	34,15,000	33,39,000	6,00,000	8,90,000
Assam ...	8,00,000	18,00,000		...	2,00,000	5 30,000	7,11,000
Burma ...					.	4,00,000	4,00,000

A revision of the provincial contracts became due in 1902, but owing to the prevalence of abnormal conditions, the revision was put off, except in the case of Burma and the Punjab.[1] The settlement with Burma had turned out unduly favourable to that province, and accordingly, in the contract of 1902, the provincial share of the land revenue was reduced from two-thirds to one-half and that of excise from one-half to one-third, and a few minor heads were added to the provincial revenue. The modification of the settlement with the Punjab was rendered necessary by the changes in territorial limits owing to the formation of the North-West Frontier Province in 1902.

§5 *Quasi-Permanent Contracts, 1904-5*

The evils of quinquennial revisions were admitted, and the revenues of the central Government having improved, the Government of India in 1904 entered into contracts on a more stable basis than before. Henceforward, contracts were to remain unaltered, 'except in case of grave imperial necessity or when the variations from the initial relative standards of revenue and expenditure have over a substantial term of years been so great as to result in unfairness either to the province itself or to the Government of India'. However, the central Government would not surrender its ultimate right to revise the terms; nor could they surrender that right, so long as they, and not the provincial Governments, were responsible to the British Parliament for Indian financial administration. The share of revenues assigned to the province was slightly lowered, but it was fixed as a definite fraction of the

[1] *Financial Statement* for 1902-3, pars. 82-3.

aggregate revenues. The principle underlying this division of revenues was that the share assigned to each province separately and all the provinces collectively should bear approximately the same ratio to the provincial expenditure as the imperial share of growing revenues bore to imperial expenditure. It was found by calculation that the central Government's expenditure was about three-fourths of the whole expenditure of India and therefore the revenue division was effected on that basis. However, all the provinces were not to have a uniform share of revenues. Progressive and well-developed provinces were to have a smaller fraction of the revenues while backward and ill-developed ones were to be given a greater share Thus Madras, Bengal, Bombay and the North-Western Provinces (from 1902 called the United Provinces or U.P.) were to have only a fourth of their revenue for provincial expenditure, while Bengal and Burma kept three-eighths and Assam and the Central Provinces one-half On the aggregate, the central Government thus kept three-fourths of the whole revenue of India in their hands.

Thus the Government of India relaxed a definte part of its control, although they did not become the 'pensioner of the provinces.' The provincial Governments administered all their revenues as their own and handed over the appointed share to the central Government This share was practically in the nature of a contribution to the central treasury and was so regarded by the Government of India.[1] In strict constitutional law, the Government of India were still the unchallenged owners of all the revenues but this *de jure* position practically lost its sting by the reform of 1904. However, the new system was only initiated in 1904; the process had to wait for its completion till 1919, when a clean separation was made between central and provincial revenues.

The division of the revenues into imperial, provincial and divided still remained; nor was there much difference in the items so classified; however, the 'divided heads' came to be more provincialized, and the provincial Governments assumed responsibility in regard to all those heads of revenue actually administered by them The central Government kept in its hands the control of all those revenues, the locale of which was no guide to their incidence, and others which accrued from the commercial or industrial enterprise of the Government Thus, it received the whole of the revenue accruing from opium, salt, customs, mint, railways, posts and telegraphs and tributes from Indian States, while the provincial Governments took all receipts from legislation and from the spending departments which they managed, such as police, education, law and justice and medical services. Receipts from minor irrigation works and from civil works other than imperial

[1] See for example, *Letter to Secretary of State*, 22 November 1910,

buildings went wholly to the provinces, while those from the larger works were generally shared.

Land-revenue, excise, stamps, income-tax and forests were divided heads in all the provinces but the division was effected in different proportions in the different provinces. Bombay, for instance, received one-half of the revenue under the heads of land-revenue, excise, income-tax, forests and stamps, whilst Madras and the United Provinces received only one-fourth of the revenue under the first four heads and one-half of the stamp revenue. Other provinces received the whole of the land revenue, on the ground that they were undeveloped. The following standard shares of revenue and expenditure were fixed in regard to divided heads as a whole :

	Imperial	*Provincial*
Bengal, U P , Bombay and Madras ...	$\frac{3}{4}$	$\frac{1}{4}$
Punjab and Burma .	$\frac{5}{8}$	$\frac{3}{8}$
Assam and C P ..	$\frac{1}{2}$	$\frac{1}{2}$

Generally speaking, expenditure went according as the item was imperial or provincial. The expenditure on all divided heads except land revenue was also borne in the same proportion as the revenue; but the expenditure on land revenue administration was to be met wholly by the provincial Governments. On them also fell wholly the charges for such scientific and minor departments as they administered and the political charges in connexion with the Indian States under their control

There was thus a heavy burden of expenditure on the provincial treasury, and it was generally in excess of the assigned revenues This difference was to be made up as before by a fixed assignment from the land-revenue Further, with a view to maintaining them before the revenues came in, the provinces were given considerable initial lump grants to start with Subsequently, when the central revenues improved, special grants were given, ear-marked for certain services like police reform, educational development and agricultural improvement These special grants, or 'doles' as they came to be called in derision, became too frequent and had demoralizing effects upon provincial finance It was one of the evils complained of by the Government of India, and the Decentralization Commission made suggestions to remedy this.

The new system of provincial finance thus set up had beneficial results Its principal object was to give the local Governments a more independent position and a more substantial and enduring interest in the management of their resources than had previously been possible And certainly this object was to a great extent fulfilled by the changes initiated 'Local Governments could count on continuity of financial policy and were able to reap the benefit of their own economies without being hurried into ill-considered proposals in order to raise the apparent standard of

expenditure."[1] It also gave relief to the central Government, inasmuch as it avoided their usual quinquennial controversies with the provincial Governments and smoothed their relations with them. On the whole it was a great advance on the old system, but there still remained certain causes for complaint, as we shall see in the sequel.

Soon after the new system was adopted, some beneficial changes were also introduced in the method of sharing the expenditure for famine relief. Hitherto the liability for famine relief was primarily provincial, and the Government of India was not bound to help until the provincial resources were exhausted. In 1907, a new system of famine insurance was devised by which the provincial Governments were greatly relieved. The Government of India were to place to the credit of each province exposed to famine a specific amount calculated roughly with reference to its estimated famine liabilities; and when famine actually broke out, the provincial Governments could straightway utilize those resources. Whatever sum was required over and above such resources was to be divided equally between the two Governments and not wholly debited to the provincial Governments as before. Again the central treasury would come to help even before the provincial balances came down to the prescribed minimum Subsequently the Government of India also guaranteed in the case of certain provinces specially liable to famine that their receipts from land revenue should not fall below a fixed minimum.

Risk of famine has been the greatest danger to the stability of provincial settlements Famine crippled land revenue collections and upset all calculations of income and expenditure. It was necessary to make some radical arrangement to remedy this. Such was the intention of the further step taken in 1917 by which famine relief expenditure was made a divided head The outlay was to be borne by the provincial and the central Governments in the proportion of three to one, which coincided approximately with the actual incidence under the previous system. The new policy simplified financial administration and on the whole was a great improvement on the old arrangements.

[1] *Joint Report* (1918), p. 71

CHAPTER XXI

PROGRESS OF DECENTRALIZATION

§1 *Constitutional Position*

ALTHOUGH in 1870, the Government of India transferred certain charges, and subsequently certain revenues, to the provincial Governments, the constitutional position of these Governments underwent little change from 1833 to 1919. This is clear from the fact that the Government of India Act (1915) repeats in Section 45 (1) almost the same words as in the Act of 1833. 'Every local Government', so runs the clause, 'shall obey the orders of the Governor-General in Council and keep him constantly and diligently informed of its proceedings and of all matters which ought in its opinion to be reported to him or as to which he requires information and is under his superintendence, direction and control in all matters relating to the government of its province.'[1] It is true that the ordinary internal administration of the provinces was carried on by the provincial Governments, but over the whole of it the Government of India exerted an effective control. General administration covered a wide field, and the extent of control varied according to the nature of the subject. As the *Imperial Gazetteer* puts it, the Government of India 'lays down lines of general policy and tests their application from the administration reports which are as a rule submitted to it by the local Governments'.[2] Even in regard to departments which were legitimately provincial—agriculture, education, forests, irrigation, etc.—the central Government exercised control in a variety of ways. The Chairman of the Royal Commission on Decentralization asked Herbert Risley (Home Secretary to the Government of India) what exactly he meant by saying that the Government of India 'controlled' archaeology, internal politics and education; and Risley replied: 'It is open to the Government of India to intervene and pass orders on any question whatsoever, whether it falls within the statutory powers of a local Government or not.'[3]

In 1902, Professor Reinsch, in his book on *Colonial Government*, stated that the Indian Empire was a vast federal state. That this was far from being the fact is clear, and no one who understood the legal position of the Indian provinces in 1902 would have made such an erroneous statement. The Government of India had full control over the activities of the provincial Governments. In fact the central Government was empowered 'by notification to

[1] 5 and 6 George V, c. 61
[2] Vol. IV, p. 17.
[3] Commission Proceedings, vol. X, p 153,

declare, appoint or alter the boundaries of any of the provinces' (Section 60). Such a power is obviously the very negation of the federal principle.

However, in administrative practice, some rough division of functions gradually arose between the central and provincial Governments. There were certain functions like defence and foreign relations which it was inexpedient to hand over to the provinces or even to share with them. There were others like currency and tariffs, in which uniform arrangements were convenient to the whole country, although their provincialization would not have imperilled the safety of the State in any way But excluding these two groups of functions, there lay a wide field which the provinces, and only the provinces, could properly administer; and of this category were the chief departments of internal administration We have to note here that this division was not based on any statute it simply evolved by convention to suit the convenience of the parties concerned.

Thus the Government of India kept in their hands the entire defence of the country, which included the discipline and upkeep of the military establishments, the maintenance of diplomatic relations, and other matters which were connected with defence and which were legitimately within the sphere of the central Government. Of this category were also the public debt and the political relations with the principal feudatory states of India. In the interests of uniformity, accounts and auditing, tariffs, currency and the exchanges, posts and telegraphs, protective railways and irrigation works and territorial and political pensions came under the direct charge of the Government of India

Ordinary internal administration was left to the provincial Governments. This covered a very extensive field, and comprised six general heads (corresponding to the supervising department of the central Government)[1] namely Home, Revenue, Political, Finance, Commerce, and Education Under the first head were included the Indian Civil Service, Law and Justice, and questions of general policy In the second category came land-revenue, surveys, forests, excise, agriculture, veterinary, meteorology, famine relief, public works, and irrigation The provincial Governments looked after the smaller of the Indian States, although they were also under the general supervision of the Political Department of the central Government. Under provincial management were also the various financial heads such as the pay, leave and pensions of services, opium, stamps, income-tax, and commercial subjects like export and import trade, factories, exhibitions, explosives, migration, fisheries, salt and excise. Further, the provinces had charge of education, local self-government,

[1] Raised to 8 in 1919.

sanitation, and similar subjects of local concern, and they also managed their own legislative councils.

Indeed in theory, the control of the Government of India consisted in laying down the general policy and watching its application, but such watching involved a continuous supervision of provincial activities, and that meant control. There were various checks on the powers of the provincial Governments; the most important of them were financial. Next came the legislative checks and administrative contrivances designed for ensuring a certain amount of uniformity throughout the country.

§2. *Financial Powers of the Provinces*

By 1905, the provinces had secured substantial powers in finance Various sources of revenue were handed over to their management, and the sums realized by them amounted to one-fourth of the whole revenue of India. Some of the revenue heads thus handed over were elastic and likely to expand with the needs of administration. The surpluses were no longer to be resumed by the central Government, and, therefore, the provinces could count on a reasonable continuity of policy. Thus the provincial Governments gained a more independent position and came to have a more substantial and enduring interest in the management of their resources Many of the older administrators thought that all the decentralization that was safe and necessary had been carried out Even before the quasi-permanent settlement was made, Sir John Strachey wrote that 'the provincial Governments had been freed from vexatious interference which weakened their authority and efficiency' [1]

In actual practice, however, the decentralization effected so far gave little real power to the provincial Governments. The principal means whereby the central Government kept its control over provincial finances was by the stringent budget rules. Not only did the budgets of the provincial Governments require the sanction of the Government of India, but they were also liable to be modified; further, every new appointment of importance and every large addition to even minor establishments required the specific sanction of the Government of India, with the result that no new departure in administration could be undertaken without its previous sanction. Provincial Governments were not to create any new appointment carrying a pay of more than Rs. 250 a month, nor add to the pay and allowance of an officer already entertained if these exceeded Rs 250 a month.[2] Nor were they to abolish or reduce the emoluments of officers receiving salaries higher than Rs. 250. They were not to increase their permanent establishments involving additional expenditure of more than

[1] *India* (1898), p. 68 [2] Civil Account Code, Articles 283 and 76 (1).

Rs. 25,000 a year, even though the scheme might not contain any appointment of sufficient magnitude to require specific sanction.[1] The provincial Governments were expected to confine themselves to the carrying on of the services particularly entrusted to them and not to spend public money for anything outside the category of objects approved by the Government of India.[2]

The budget control mentioned above was not merely a general supervision; it involved detailed interference. The provincial budgets were, in those days, incorporated in the budget of the Government of India and were often modified by the central Finance Department. A minute examination of the various works, especially those under civil public works, was made by the central Government.[3] Further, there were certain standing orders restricting provincial freedom. A provincial Government was not allowed to exhaust its balance in the imperial treasury. Until 1887, however, provinces had fuller freedom in this matter. Provincial Governments were also forbidden to budget for a deficit, that is, they were allowed to spend only the funds covered by the current revenue. Reappropriation was only allowed within certain limits; for instance, some part of the money granted for one major head, say police, might be used for education. Even in Great Britain such transfer of funds from one head to another needed a supplementary vote of the House of Commons. Of course, this freedom of the provincial Governments was subject to the 'implied engagement to keep all the departments of the province in full efficiency'.[4]

The provinces were also dependent upon the Government of India for account and auditing. They had no separate Finance departments. Their accounts were kept for them by the civil accounts staff responsible to the imperial Finance Department, and by the account officers under the Public Works Department of the central Government. The accounts were then audited by the imperial Audit Staff and there was no review of the results by a Public Accounts Committee of the Legislature. In each major province there was an Accountant-General who was departmentally subordinate to the Comptroller and Auditor-General at Calcutta. Deputy Auditors-General were periodically sent round by him to inspect the provincial offices and accounts. The Public Works Department also sent round its Accountant-General although less frequently. The Accountants-General stationed in the various provinces had wide powers of bringing to notice all cases in which provincial powers had been exceeded and of requiring that such expenditure should be disallowed if it had not been sanctioned by the proper authority. All these provisions were perhaps necessary

[1] C.A.C., Article 277 (4). [2] Resolution of 1877, Rule 4 (2) and Rule 11.
[3] *Decentralization Commission Report*, p. 4.
[4] Dispatch of the Secretary of State to the Government of Madras, 10 December 1874.

to ensure financial security, especially in a country where the people did not control the Government.

Two voluminous codes were in existence to guide the financial proceedings of the various governments. The main provisions of the Civil Account Code were laid down by the two special commissioners deputed from England in 1864 for suggesting improvements in the financial machinery of India, but subsequently they were greatly enlarged, and by 1905 the Civil Account Code comprised two volumes covering (with appendices) 760 pages. It was divided into 80 chapters comprising about 1700 sections. The Civil Service Regulations was a smaller volume of 300 pages, excluding the appendices. It dealt with the pay and allowances, leave rules, pensions and travelling allowances of the various sections of the civil services of India.

Both these codes laid down detailed instructions; they involved meticulous interference with the details of provincial administration, and necessitated endless correspondence The vouchers and countersignatures required by the Civil Account Code were innumerable and made the routine work in the offices too heavy for ordinary human beings. But in defence of the system, it must be pointed out that such minute regulations were necessary for the guidance of the scattered army of subordinate officials throughout the sub-continent, and embodied the practical experience of many generations Rulings had been made on a variety of questions which had come up before the Government of India and these became the 'common law' of administrative practice In their absence, there would have arisen undesirable divergences between province and province; and in regard to conditions of service, a competition between the various provincial Governments would have been ruinous For instance, if there were differences between province and province in such matters as travelling allowances and house allowances, it would cause annoyance and heart-burnings.[1] Moreover a Government functioning over such a vast country, and not controlled by the people or their representatives, must work under elaborate rules and with many checks and balances.

§3. *Control over Taxation and Borrowing*

The central Government jealously guarded their power of controlling all taxation throughout India Of course, the provincial Governments which had their own legislative councils could raise taxes by legislation, but that power was to be exercised with the previous sanction of the Governor-General, and according to the practice established in 1874, the sanction of the Secretary of State was also necessary.[2] Such sanction was not given unless the

[1] *Decentralization Commission*, vol X, p 165

[2] The Government of India Act (1915), Section 79 (3) (a) According to this Act, provincial legislatures required the central Government's previous sanction

central Government were convinced that the power sought would not trench on the central revenues; and as this was not easy to prove in regard to any new proposal for taxation, the result was that the provincial Governments seldom exercised the power As the Joint Report (1918) puts it, 'this was a natural corollary of the statutory hypothecation of all Indian revenues to all-India needs' [1] 'If', the same report adds, 'many buckets are dipping into one well, and drought cuts short the supply of water, obviously the chief proprietor of the well must take it upon himself to regulate the drawings.' The Decentralization Commission justified this policy on the ground that the provincial Governments had not got 'a sufficiently separate fiscal sphere to render such policy desirable', and that they lacked 'that responsibility to tax-payers which acts as a check upon increased taxation in other countries'[2]

However, the provincial Governments had a large freedom in the administration of the existing taxes The collection of all revenues was done by them. The administration of land revenue comprised a good many functions like revenue surveys and settlements, jamabandi, rent and revenue legislation, government land sales, mining concessions, and even agricultural indebtedness and famine relief. In these matters, conditions varied from province to province, and any minute control by the central Government was out of the question. Each province had its own land revenue code and separate Acts under which that revenue was assessed, and the central Government did little more than lay down the general policy and watch its application In 1875, the Government of India in a Dispatch to the Secretary of State expressly denied the necessity for interfering in the details of revenue settlements, and wanted to have only control of the general principles.

From 1880, however, there had been a growing tendency towards central control in regard to all land revenue matters. The settlement operations of the temporarily settled lands were carried on by civilian officers under the supervision of the provincial Governments, but the central Government laid down general principles in regard to important questions and enforced them according to the degree in which such questions affected the general well-being of the agricultural population and the financial stability of the country. It is true that the Governments of Madras and Bombay were given a freer hand than other provinces in regard to revenue settlements, although even in regard to them, there occasionally arose cases which necessitated interference,[3] but in

to consider 'any law affecting the public debt of India or the customs duties or any other tax or duty for the time being in force and imposed by the authority of the Governor-General in Council for the general purposes of the Government of India'. See also chapters vi and viii of this book.

[1] Page 72. [2] *Decentralization Commission Report*, vol I, pp 43-4.

[3] *Decentralization Commission Report*, vol I, p. 91; vol. II, pp. 163-4 This privilege caused dissatisfaction to other provinces, vol. III, pp. 177-8.

other provinces, the general principles of assessment had to be approved by the central Government, and no settlement was to be undertaken without its previous sanction. The settlements had also to be confirmed by it in most of the provinces. The central Government kept itself in touch with provincial revenue matters by means of 'Calendars' of revenue settlements, annually submitted by the provinces, detailing the terms of the current district settlements, the dates on which they would expire, the amount of the revenue demand and so forth. This served as a convenient handle for intervention in provincial land administration.

Tenancy legislation might be initiated by the provincial Governments, but proposals for such legislation were to be carefully examined and reviewed by the Government of India; and this was but proper in the circumstances of the time.

The lands owned by the Government (handed down by the East India Company)[1] were for a time jealously guarded by the Secretary of State, who insisted that his previous sanction must be obtained before alienating such lands,[2] but this practice ceased subsequently except in the case of large alienations. The provincial Government in whose jurisdiction the land lay had the right to part with proprietory rights subject to payment of the ordinary land revenue assessment, but the central Government's sanction was required for the alienation of revenue-free land except in *Nazul* areas,[3] where the trouble of collecting revenue was disproportionate to the amount involved, and in the permanently settled areas of Bengal, where occasionally petty properties came into the hands of the Government.[4] These rules related to the alienation of land for industrial or other purposes of public utility like colonization, but grant of land for private purposes was laid under restrictions. The provincial Government's right to grant mining leases was also strictly limited by the orders of the Secretary of State.[5]

The provincial Governments had also considerable freedom in regard to excise on country liquor and on drugs, except where the interests of two or more provinces came into collision.

Provinces were prohibited from borrowing funds in the open market. If a province required a loan, the central Government lent the amount and the province had only to pay the interest. Sterling loans were raised in England by the Secretary of State and the rupee loans in India also required his sanction. There was indeed some justification for this restriction. As the Montagu-Chelmsford Report puts it: 'It was considered advisable to control the total borrowings of India by one agency, if rates were not to be forced up and the market dislocated and credit possibly injured by indiscreet ventures.'[6] But this power gave the central

[1] 21 & 22 Vict., c. 106. [2] Dispatch, 9 July 1862.
[3] Escheated property.
[4] Revenue and Agriculture Proceedings, October 1897, Nos. 1-6, and June 1903, Nos. 9-10.
[5] *Decentralization Commission Report*, vol. I, p. 108. [6] Page 78.

authority 'a powerful lever for insisting upon provincial solvency and for continually interfering in detail for that purpose'.[1] Such control was extended even to the Provincial Loan Account, from which the province gave loans to agriculturists and to estates under the Court of Wards

§4 *Public Works Control*

In 1863, the Public Works Department of the Government of India was 'a monster of centralization' according to Trevelyan, and the vexatious interference that it caused has already been described. But from 1871 the provincial sphere in public works widened and central control was relaxed in many directions. As the Decentralization Commissioners pointed out 'when such works were of small account and insignificant sums were spent on them, it was inevitable that the small provincial staffs should often lack the technical and administrative qualities necessary for high efficiency, and in such circumstances, close supervision and control by the Government of India was naturally advisable'.[2] Lord Mayo in 1870 increased the powers of provincial Governments in regard to public works, and in 1878, the maintenance of productive public works was made a provincial charge (See Chapter XV).

From that time provincial responsibility in regard to public works became considerably enlarged Several works were carried out with funds raised by provincial taxation, and in the case of such works the Government of India did not interfere except when the cost exceeded Rs 10 lakhs[3] In regard to works carried out on behalf of the central Government, that Government kept to itself the authority to distribute the available grants as a whole, and to control the pay of the more important appointments and the organization of the larger establishments.[4] In other words, the actual construction and maintenance of roads, buildings and irrigation works devolved on the provincial Governments, but the Government of India allocated funds for such works as were defrayed from imperial or borrowed revenues, scrutinized plans and estimates and sanctioned contracts, and were primarily responsible for accounts and auditing The latter function was performed by the officers of the Public Works Account Branch, and the work of scrutinizing plans was done by the staff of the imperial Inspector-General.

The provinces had their own Public Works Departments under Chief Engineers, who were also Public Works Secretaries to the

[1] *Southborough Committee Report* (1919), vol II, p 87

[2] *Report*, vol I, p 78.

[3] *Decentralization Commission Report*, vol I, p 79, also Public Works Code, Articles 1935 and 1964

[4] The provincial Governments were under restriction in regard to works connected with the personal amenities of the heads of provinces (i e in regard to Government Houses, circuit houses, etc) See *Report*, vol I, p. 82

provincial Government, but the general organization of those departments, including the pay and conditions of service, were prescribed by the central Government. Except in Madras and Bombay, the principal officers of the provincial department were also appointed by that Government, but in practice the recommendations of the local Government in filling up superintending engineerships were generally accepted. The Public Works Code, a work in three volumes, regulated all these complex relationships between the central and provincial Governments

These restrictions on the provincial Governments were subjected to severe criticism before the Decentralization Commission. Thus the Chief Commissioner of the Central Provinces told the Commission :—'Among the particular departments of the Government of India which appear to be too rigid in limiting the discretion of the head of the province, I consider the Public Works Department as the worst offender, they interfere in details to an extent which is often irritating '

§5 *Grants-in-aid*

Grants to provincial Governments were effective instruments in the hands of the central Government for controlling provincial administration Such grants were few and far between, till about the close of the nineteenth century; but after the stabilization of the rupee the central Government had large surpluses, and the improvement of the opium revenue early in the present century enlarged the surpluses. From such increasing resources, the Government of India distributed grants ear-marked for specific purposes like education, agricultural development, police reorganization and so forth The provincial Governments had to draw up detailed schemes and such schemes were scrutinized by the central Secretariat According to a memorandum placed by the Bombay Government before the Decentralization Commission, 'no detail was so unimportant as to be accepted on the authority of those Governments' [1] Owing to the excessive control thus exerted by the central Government, these grants became unpopular with the provincial Governments and they came to be called 'doles' The unequal distribution of these grants between the provinces was also a cause of their unpopularity

The system of grant-in-aid has long been common in most countries as a means of giving financial help to local authorities from the central Government; but in recent times it has also invaded Federal Governments In Germany, after the War, grants from the Reich to the States became a common feature of federal financing, and the system caused considerable bickerings a few years ago.[2] In the United States also 'federal aid'

[1] *Decentralization Commission Report*, vol VIII, p 230
[2] *Manchester Guardian Commercial*, 16 February 1928, p. 189.

has become very common in modern times, and this has led to what is called 'federal centralization'. According to White, 'Federal grants have increased in modern times and have become a powerful weapon for securing uniform action over the whole area of the United States, even in matters over which the Federal Government has no power to legislate'.[1] Grants have been given chiefly for vocational education and high road construction, two matters in which the Federal Government is keenly interested and it is chiefly in these subjects that federal control has increased

§6 *Legislative Control*

The supervision by the central Government over the legislative activity of the provincial Governments added largely to the control of provincial administration Provincial Governments were not allowed to permit the discussion of any bill in their legislative councils before it had been examined and approved by the Government of India and submitted to the Secretary of State; and all bills passed by these councils required the assent of the Governor-General as well as of the Governor or the Lieutenant-Governor concerned. Thus the freedom of the legislative councils was restricted by executive directions which made their power very insignificant indeed.

The field of their legislation was also restricted by the numerous laws already made by the central legislature on all kinds of subjects. It is true that for the sake of uniformity, such laws as the Indian Penal Code, the Civil Procedure Code, and the Evidence and Succession Acts were necessary, but the field previously occupied by central legislation included many subjects which might have been left to provincial legislatures. The Joint Report of 1918 has given the following valuable enumeration of these laws:

> Under the head of crime we have laws for Prisons, Jails, Reformatory Schools, Police and Whipping. Where the personal law affecting the different communities has been codified in such matters as marriage, minors and succession, attempts have been made to make it uniform and to prevent provincial variations, to the great benefit of the people In Civil Law, we have Acts regulating contracts, trusts, specific relief, transfer of property, easements and arbitration. Business has been regulated by laws for patents, trade marks, weights and measures, securities, insurance companies, insolvency and usury. Laws for forests, mines, factories, boilers, electricity and explosives have smoothed the course of industry; and labour questions have been dealt with in laws controlling compulsory settlement of labour disputes, breaches of contract, emigration and apprentices. Essential matters affecting public health such as

[1] White, *Public Administration*, p. 88.

prisons, leprosy, lunacy vaccination and epidemics—have also been regulated by a uniform code of law Finally, in a wide miscellany of matters, such for example as religious endowments, charitable societies, plays and kinematographs, motor vehicles, ancient monuments and treasure troves, India has been given a uniform law which works well because conditions are everywhere *sufficiently similar*.[1]

On many of these subjects, perhaps, central legislation was necessary to ensure uniformity, but there were others in which such legislation only led to rigidity and annoyance. The provincial Councils were not denied the power of concurrent legislation, but its exercise was strictly circumscribed with limits.[2]

§7 *Agencies of Administrative Control*

The motives of the central Government in supervising provincial administration were chiefly financial, but finance entered into every field of administration, and therefore central control came gradually to be exerted over almost every function of the provincial Governments There was some decentralization of control over details, but it was accompanied by a consolidation of control over essentials.

However, in the fields of education, police, forests and medical aid, the provincial Governments were given great freedom. In Education, there was every desire 'to comprehend local conditions and to facilitate local developments'.[3] Appointment to the headship of the provincial Education Department did not require the sanction of the central Government except in the Central Provinces. Recruitment to the Indian Education Service was generally carried out in England, but the men so appointed came under the provincial Governments.

In police administration also, provincial Governments seem to have had a free hand ever since Mayo's financial measure of 1870, although there was insistence on uniformity in regard to the conditions of service Recruitment to the Imperial Service was made by open competition in England The changes carried out as a result of the Police Commission of 1902 seem to have brought about unnecessary rigidity and excessive expenditure, and this policy was criticized by the Decentralization Commission.[4] The Forest administration remained mainly under the control of the provincial Governments, but the activities of the imperial Inspectors-General tended to bring about greater uniformity.

Central control was perhaps more pronounced in the Medical, than in any other 'provincialized' department. Such control was exerted mainly through the central Government's hold on the Indian Medical Service, the *personnel* of which were recruited in England and, although normally under civil employ, were

[1] *Joint Report* (1918), p 75
[2] See chap VII, section 3
[3] *Decentralization Commission Report*, vol I, p. 127.
[4] ibid, pp 124-5.

commissioned officers of the army. The provincial Governments were under the stringent control of the Government of India in regard to all higher appointments and the Governments of Madras and Bombay attempted, but unsuccessfully, to organize their own separate civil medical services

The agencies employed for controlling these departments (besides the financial check which was the most effective) were (1) general resolutions and formulation of policy, (2) periodical reports and review thereof, and (3) the supervision of imperial inspectors-general.

On all important questions, general resolutions regarding policy were issued for the guidance of provincial Governments We have referred to many such resolutions on financial administration The usual procedure adopted was, first to appoint a commission or committee to investigate the working of a department functioning primarily in the province, and then when the report was presented, the Government reviewed the whole subject and issued a resolution laying down specific rules about the future working of that department. Two examples may be given In the early nineties, there was considerable difference of opinion concerning forest administration, and the Government of India went carefully into the matter and issued a Resolution in 1894 containing a definite statement of their forest policy [1] The policy thus outlined had to be followed by the provincial Governments Of a similar nature was the resolution which Lord Curzon issued in 1904 on Education,[2] after a thorough inquiry into the problems and prospects of Education in India; it also reviewed past policy and laid down the lines on which future progress should be made The result was greater uniformity in educational administration, which eventually made the control of the central Government stronger

The departmental administration reports periodically submitted by the provincial Governments were scrutinized by the central Government and often instructions regarding them were issued to the various provincial Governments These instructions were nearly always meant for uniformity and efficiency in administration, but the control of the central Government was thereby made effective The same was the result of the right of appeal conceded to, and exercised by, Government officers and members of the public who felt aggrieved by the action of the provincial Governments

§8 *Imperial Inspecting Agencies*

Towards the close of the nineteenth century, especially during the regime of Lord Curzon, inspectors-general were appointed for many of the services which were properly provincial and they

[1] No 22 F 19 October 1894

[2] Nos 199-211 of 11 March 1904; see also *Review of the Progress of Education in India* (1897-1901), Appendix.

became an effective agency for collecting information regarding the activities of the provincial departments and enabled the central Government to supervise provincial administration

The prime duty of the imperial inspecting agencies was to give information and advice to the Government of India and the provincial Governments. They were not meant to replace the Secretaries to the Government of India in those various departments; they only assisted the secretaries and through them the members of the Executive Council. The following description of the functions of the Inspector-General of Agriculture will serve as a guide to the position of most of the officers of this category :

Apart from the prosecution of such independent inquiries as may be desirable, it will be the duty of the Inspector-General to guide and co-ordinate the experiments which are being made under the orders of local governments, and to publish and criticize their results; to indicate new lines which inquiry may profitably follow, and to respond to the requests of private investigators for assistance or advice It will be open to provincial Governments to consult him on subjects in which the opinion of an agricultural expert will be of value, and his opinion should obviously be taken on any schemes of experiment or inquiry which may be in view In regard to the Government of India, his position will be that of an adviser on matters connected with agriculture It is not proposed to invest him with any direct authority over provincial departments of agriculture; nor is it anticipated that any such authority will be needed in order to secure the advantages which will result from his guidance. But he will be authorized to correspond direct with the heads of these departments, and he will, indeed, regard the maintenance of close personal relations with them as essential to the proper discharge of his functions His duties will of course, be more in the field than in the office, and constant tours will be necessary not only in order to keep him in touch with other investigators, but to gain that close acquaintance with the agricultural conditions of the country which alone can indicate the scope which exists for improvements and the possibilities of effecting them [1]

The instructions given to the Inspector-General of Forests, the Director-General of Education and the Director-General of Commercial Intelligence were also couched in nearly the same language.[2]

Even if these officers carefully stuck to such functions, they were bound almost inevitably to tread upon delicate ground in calling for information from, and offering advice to, provincial Governments For, in the discharge of their duties they were bound to trench on the administrative sphere, and the provincial Governments strongly objected to even the faintest shadow of such interference It was under such apprehensions that most of the

[1] Circular letter of 24 October 1901, *Decentralization Commission Report*, vol I, p. 116.

[2] *Decentralization Commission Report*, vol. X, p 190.

provincial Governments warned the Decentralization Commissioners of this possible danger. As the Chief Secretary of the Madras Government pointed out · ' There was a tendency to issue direct instructions to heads of departments which are likely to be construed into orders and which weaken the authority of the local Government.'[1] Some provincial Governments even doubted if the Inspector-General ' could obtain such knowledge of the systems of the different provinces as to render them thoroughly trustworthy advisers in regard to the very diverse circumstances and conditions of each '. The central Government was liable to use these officers as a fresh administrative agency to interfere in the work of strictly provincial departments like police, irrigation, sanitation, education and agriculture, and if that was done local initiative would be deadened and a lifeless uniformity and timidity would take its place The provinces indeed admitted that some agency was required to co-ordinate the activity of the various Governments in any particular sphere, but it was urged that this could be effected by occasional conferences of the heads of provincial departments

The Decentralization Commissioners, however, while agreeing that these imperial inspecting officers should not have the right to interfere in the administrative sphere, affirmed that they were necessary to give technical advice, especially as these departmental heads were often selected for their administrative ability They laid down the following as the proper function of the imperial Directors-General and Inspectors-General

(i) The charge of experiments and research which the Government of India desire to carry out directly, and the supervision and co-ordination of subsidiary research in the provinces

(ii) The establishment of bureaux of information with special regard to the needs of imperial and provincial administrative departments, and the dissemination of useful information

(iii) The furnishing of advice and information to the Government of India in regard to technical matters of which the Inspector-General has special knowledge.

(iv) The furnishing of full and ready assistance to provincial Governments and their officers, either in response to inquiry or on his own initiative.

(v) Inspection, throughout India, in respect to matters falling within his sphere [2]

Although the Decentralization Commissioners powerfully affirmed that the existence of these imperial officers ' need not and should not bring about any greater degree of centralization,'

[1] ibid , vol II, p. 328 Examples of such interference were also given—G O. Nos. 1893 Judicial, 17 November 1896 also see ibid , p 245

[2] ibid., vol I, p. 139.

it cannot be denied that in actual practice it was almost impossible for these officers to discharge their duties efficiently without thereby strengthening the forces working for centralization; and this explains why well-known administrators like Sir Denzil Ibbetson, Governor of the Punjab, expressed their uneasiness at the growth in the number and powers of these imperial officers.[1] As we shall see in the next chapter, these are inevitable tendencies in certain stages of administrative evolution.

§9 *The Attitude of the Provincial Governments*

Thus, in spite of the increased delegation of financial powers to the provincial Governments and local authorities, the control of the Government of India remained intact and there was no diminution in the interference with provincial administrations, of which there were repeated complaints soon after India came under the Crown The authority of the Government of India was complete: it was 'almost co-extensive with the whole sphere of operation of the provincial Governments'

It is true that the central control over the presidency Governments was less detailed than that exerted over the other provincial Governments The presidencies were still allowed direct correspondence with the Secretary of State, a privilege which they had always enjoyed, but after 1860 that was circumscribed within narrow limits, and every opportunity was taken for weakening it In 1871, the Government of India recommended a substantial curtailment of the presidency privileges and wanted that all correspondence between the presidencies and the Secretary of State should go through the Government of India, and although this was disallowed by the Secretary of State (Duke of Argyll) on the ground that it would lower the status and impair the authority of the presidencies, the occasion was utilized for drawing up detailed rules, governing the exercise of those privileges Thus (1) in matters relating to the creation of new offices and the grant of salaries, gratuities and allowances in which the statutes and orders then in force precluded the Governments of Madras and Bombay from directly corresponding with the Secretary of State, all correspondence must proceed through the Government of India; and the same was to be the case with regard to the army and foreign relations; but (2) in regard to other matters, there was to be no restriction on direct correspondence, provided a reference was made in the first instance to the Government of India If such reference was not made, the Secretary of State would not pronounce a decision without previously obtaining an expression of opinion from the Governor-General in Council. In the event of the presidency Governments not being able to acquiesce in the decision

[1] ibid , p 138, and vol IX, appendix v, p 237.

of the Government of India, they should not only move the central Government to refer the point at issue to the Secretary of State, but should send that dispatch through the Government of India.[1] In this manner, the presidency privileges were whittled down and the difference between presidencies and other provinces became narrower as time advanced

This change of status was particularly felt by Bombay which had previously exercised semi-sovereign privileges in regard to the spending of money, and even in regard to the relations with foreign powers.[2] Bad relations between Bombay and the Government of India continued Bombay gave vent to its feelings in a memorandum submitted to the Decentralization Commission, from which the following passage is relevant

> A government not entrusted with the power to decide whether one of its servants may make a certain investment without infringing the spirit of the Public Servants' Rules, or to settle whether a mining concession may be allowed in a native state under its control, not permitted to appoint a watchman on Rs. 10, debarred from sanctioning a sum of Rs. 10 to meet expenses incurred by a lady doctor, deprived of final direction in settling the number of police orderlies to be attached to its police school and liable to be overruled on the situation of a stair-case erected in a government bungalow, and on the rent charge to be levied from the occupant, is evidently an expensive and useless excrescence upon the system of administration in India.

They therefore held that either such a Government (i e , provincial) should be given full powers, or should be abolished and a single officer with limited authority[3] appointed

Other provincial Governments also pointed out the unfairness of the restrictions placed on them, particularly the Madras Government, which like Bombay, had memories of autonomy in the past But as usual, Madras put its complaints mildly and preferred persuasion to protest [4]

[1] Letter from the Secretary of State to Madras and Bombay, 17 June 1872

[2] Government of India's letter to the Secretary of State, 7 September 1871, p. 7.

[3] Minutes of Evidence, vol VIII, p 230 Further examples of provincial 'incompetency' were quoted by the Bombay Government It could not settle the status of a local fund vaccinator, the location of a rural liquor shop, the number and distribution of police posts, the fees to be drawn by medical officers attending native gentlemen and it could not dispose of a complaint of unsympathetic treatment in a Government Hospital, nor could it control the movements of even Indian Chiefs under provincial supervision This exaggerated picture of interference is no doubt based upon some specific cases, but the picture seems over-drawn

[4] It is significant that about that time (1907), the inequity in regard to shares of revenue involved in the settlements with Madras and United Provinces was rectified The difference in the attitudes of the Bombay and the Madras Governments towards the central Government has always been noted Compare *Decentralization Commission Report* (1908), vol X, p 178, with the *Report of the Select Committee on East India Finance* (1873), pp 36, 54 and *passim*. Persons change, yet traditions remain!

§10. *The need for central control*

No doubt the provincial Governments had reasonable cause for complaining about the meticulous interference with their administration, but one feels that they did not always fully realize the constitutional implications of the responsibility that the Government of India had for the administration and revenues of India. The provincial Governments were indeed responsible for law and order in their own territories, but the central Government were answerable to the British Parliament through the Secretary of State not only for law and order but also for the financial solvency of the whole country, including the provinces. As Sir James Westland, Finance Member, maintained in his answer to a Bombay representative in the Imperial Legislative Council in 1897 'the revenues of India are the revenues of the Government of India—its constitutional possession. Every action that the local Government takes in respect of them must be justified by a specific order of the Government of India'[1]. True, certain limited powers were delegated to the provinces for the convenience of the central Government and with a view to a harmonious relationship between them and the provincial Governments, but it was only a *delegation* and not a *relinquishment*, and therefore the further decentralization proceeded, the greater became the necessity for the central Government to keep the ultimate control within their own hands.

Sir Alexander Mackenzie, Governor of Bengal, was unable to understand how a Government like his, ruling over seventy million human beings, was not fitted to have an autonomous financial system. But the size of the province did not make any difference to the constitutional position. It was pointed out that the Municipality of Bombay had a freer hand in finance than the Government of the Bombay Presidency. This was true in a real sense, but the reason is clear.

As explained in chapter VII, the Government of India Act of 1858 vested the entire financial responsibility for India in the Secretary of State in Council, and so long as that remained intact, no further devolution of powers on the provincial Governments was possible. The reasons for maintaining that authority intact have been explained before. Suspicion of officials is ingrained in the British mind; and it was held as an axiom that all Governments must be ultimately controlled by the people. The people of India

[1] *Financial Statement* (1897-8), p. 110. Strange as it might appear, the Bombay Government went to the extent of questioning the 'theory' that all revenues were the property of the central Government. It said 'This is a fallacy similar in nature to the frequent assertion that the powers exercised by the Government of Bombay have been derived by devolution from the Government of India . . . On the contrary, the Bombay Government possessed very wide powers which have been absorbed by the Government of India'. *Decentralization Commission Report*, vol. VIII, p. 230. One cannot really understand how, and why, the Bombay Government ignored the Charter Act of 1833.

were considered to be unfit for exercising such a check on their government, and therefore it was the duty of the British people to control Indian administration through their representatives in Parliament. Hence the vigilant eye that Parliament always had on India, and the proneness to 'pull up' even the highest officials of the Crown when the least thing went wrong. John Stuart Mill expressed this trenchantly in a weighty minute. 'Being unable, consistently with the good of the people of India, to allow them any control over their rulers, Parliament is under the most binding obligation to exercise such control for them'[1]

Mill wrote the minute above quoted, in 1866. After that the Indian Legislative Council was enlarged in 1892, and the number of Indian members was increased Great social and political changes had come over the country. Political unity had been growing and the Indian National Congress, which was founded in 1885, was rousing the national aspirations of the people The India of 1905 was not the India of 1865. It was perhaps time, therefore, to transfer a part of the Parliament's responsibility to the people of India acting through their elected representatives. This was soon recognized, and as we shall see in the next part, steps were taken to strengthen the legislative bodies in India and increase the powers of the provincial Governments.

[1] Parliamentary Paper, LVI of 1876 Mill wrote the Minute in connexion with the controversy between the Secretary of State and the Government of India on the question of indigo contracts

PART VI

INDIAN FINANCES UNDER DYARCHY

CHAPTER XXII

DECENTRALIZATION COMMISSION AND AFTER

§1 *The Decentralization Commission*

Soon after Lord Curzon left India, the overweening powers of the central Government over the provincial Governments became the subject of repeated complaints from the latter and caused considerable tension in the relations between them. The new Viceroy, Lord Minto, was no professional politician, but was a keen sportsman and had a thorough knowledge of English local administration, in which he had taken an active part, and acquaintance with the federal Government of Canada, of which Dominion he had been Governor-General. He fully realized the *impasse* into which the provincial Governments were pushed by the policy of centralization, and decided to appoint a departmental committee to inquire into the financial grievances of the provinces, but before this materialized a Royal Commission was appointed for the purpose in England. The reason for this was the change of policy at Whitehall. The Liberals had come into power with a thumping majority and the traditional policy was to favour political reform and conciliation in India. The new Secretary of State for India, John (later Lord) Morley, was an exponent of this policy. By temperament, Morley was against the apotheosis of efficiency,[1] and naturally he preferred a policy of decentralization to one of rigid central control. The object of the Commission, however, was limited to the improvement of the provincial Governments' relations with the central Government and its terms of reference did not extend to the more fundamental question of the control exerted by the India Office over all the governments in India. Without rectifying the latter, it was not possible to improve the former; for the rigidity of centralization was largely due to the control of the Home authorities, and it was there that the evil started. In the result, the purpose of the Commission was practically defeated; since the core of the problem could not be touched, it was only possible to prescribe palliatives. However, the report and proceedings of the Commission are a mine of information on the financial administration of India.

[1] In his speech in the House of Lords, 23 February 1909, Lord Morley, while agreeing that from the point of view of efficiency, Lord Curzon's Indian Viceroyalty was a great success, gave his opinion that Curzon left in India a state of things 'not completely satisfactory such as would have been the crowning of a brilliant career'. Keith's *Speeches on Indian Policy*, vol II, p. 89

The grievances placed before the Commissioners[1] related to (1) the system of 'divided heads', (2) the policy of giving grants (*doles*) to the provinces, (3) budgetary restrictions, (4) the inability of the provinces to tax and borrow on their own account, (5) the rigour of codes and regulations, and (6) the unequal treatment of the provinces. They inquired laboriously into each of these grievances, but found that within the restricted terms of reference by which they were bound, they could not recommend any radical reform.

The evils arising from 'divided heads' have been described in a previous chapter. The Commissioners gave the fullest consideration to this question. Many responsible persons, including some provincial authorities, suggested that the complete provincialization of the divided heads was the proper remedy. To meet the deficit in the central budget, they proposed the levying of provincial contributions on the basis of the *matrikular Beitrage* system of the German Empire. Some suggested that the contributions should be lump sums calculated as percentages of provincial revenues,[2] others favoured a fixed sum revisable periodically,[3] and yet others recommended a fluctuating contribution calculated upon the population, or wealth, or the revenues of the different provinces.[4]

In favour of a lump sum percentage it was pointed out that it would provide for growing revenues to meet growing expenditure, thus giving greater elasticity to provincial finance, and that any desired modification of the provincial settlements could thereby be effected more easily. The Commissioners questioned the advisability of shifting revenue heads already fixed as imperial or provincial, and even in regard to modifying the system of divided heads, they found two principal objections, namely that the percentages as between the various provinces could not be uniform, seeing that in the case of a unitary Government as in India the richer and more advanced provinces should necessarily contribute a larger proportion of their revenues to the central Government than the poorer and more backward provinces, and secondly that in the circumstances of the time it was impossible to make the whole resources of the provinces dependant upon growing revenues. Additional grants were often made to the provinces for carrying out administrative reforms; and to convert such fixed grants into a reduced percentage of the total provincial contribution 'would involve an

[1] The members of the Commission were Mr (later Lord) Hobhouse, Chairman, Sir Frederic Lely, Sir Steyning Edgerley, Mr R C Dutt, Mr W S (later Sir William) Meyer, and Mr W L Hichens. Originally Sir Henry Primrose was appointed Chairman, but he resigned before beginning work.

[2] *Report and Proceedings of the Royal Commission on Decentralization*, vol IX (Lahore), pp 178-81.

[3] op. cit., vol IX (Lahore), pp 16-17, vol. VIII (Bombay), pp 11-12 (Chief Secretary), pp 65-7 (G K Gokhale), pp 89-91 (Sir Ibrahim Rahimtoola).

[4] op cit., vol II (Madras), p 305 (Sir B N Sarma).

enormous amount of laborious calculation and often a considerable degree of controversy '.[1]

The second alternative of a fixed sum revisable periodically was regarded as impracticable by the Commissioners; for, such periodical revisions would often entail enhanced contributions and this would certainly lead to recurring controversies between the central and the provincial Governments, like those which arose at successive revisions of the contract before 1904. The third alternative of a fluctuating subsidy appeared to the Commissioners to be even more objectionable, as they feared that a contribution on a population basis would be unfair to the relatively undeveloped provinces and there was no accepted or practicable method for accurately assessing the comparative wealth of the different provinces They also feared that there would be an undesirable element of uncertainty in the provincial finances, if any such fluctuating subsidy were adopted

The proposal of a contribution from the provinces to the central Government appeared altogether unsuitable, as it would be in the nature of a tribute, and this was inconsistent with constitutional realities.

The Commissioners were, on the whole, right in rejecting the *matrikular Beitrage* system. Even in federations, such contributions have not been popular, the separation of resources is the right basis of federal finance. The Indian constitution was still unitary, and the existence of large and well-equipped provincial Governments did not make any difference to the constitutional position Anything in the nature of provincial contributions was bound to create grumblings and inter-provincial jealousies

A possible alternative to 'divided heads' was to assign to the provinces a few heads of revenue This was criticized by Mr J S. (now Lord) Meston [2] If the provinces depended solely on one big item like land revenue, a severe famine might make them bankrupt. In his opinion, 'the financial interests of the imperial and provincial Governments were brought as nearly as possible into unison' by the system of divided heads He also thought that the system made for financial stability After a full consideration of the question, the Commissioners resolved not to recommend 'any sudden or violent change' in the system of divided heads. However, they found no objection to convert unduly large fixed assignments into shares of growing revenue, as they thought that fixity of assignments was inconsistent with the expansion of expenditure inevitable in provincial services Not only were existing services expanding, but additional financial responsibility (e g in regard to irrigation) was likely to be laid on the provincial Governments.

[1] This and the paragraphs immediately following are summarized from the Report of the Commission, ch iii

[2] op cit., vol. IX, pp. 126-7.

In these circumstances they suggested the gradual provincialization of a divided head like excise or forests.

§2. *Financial Restrictions on the Provincial Governments*

The restrictions on provincial budgeting caused considerable friction in the relations between the central and the provincial Governments, and a relaxation of them was urged on the Commissioners, but without success. They thought that this was a necessary corollary of the system of divided heads. 'While imperial and provincial finances remain as closely intertwined as at present', they said, 'it is essential that the estimates of the local Government should be incorporated in the Imperial budget, and be subjected to revision by the predominant partner'.[1] They admitted, however, that the Government of India should avoid making unnecessary changes in the estimates of the provincial Governments.

The claims of certain provincial Governments to be allowed to levy taxes and borrow on their own account were also rejected by the Commissioners as inconsistent with the constitutional and financial framework of British India at the time. It was pointed out to them that, if the provincial Governments were allowed to borrow, they could tap fresh local markets and thus raise money for important local projects which had been long waiting, but the Commissioners could find no indication that there was much local capital awaiting investment. Strictly speaking, there were no separate sources of revenue on the security of which the provinces could borrow; the Government of India raised money on the security of the whole of the Indian revenues, provincial as well as central, and its credit was likely to be undermined if the provinces were to borrow on their own account

The Commissioners admitted that there were numerous vexatious restrictions on the liberty of action of the provincial Governments in such matters as new appointments, raising salaries and increasing establishments; and they suggested an enhancement of the powers of both the central and the provincial Governments in respect of them. In the case of 'provincial' and 'subordinate' services, there was no need for uniformity between the different provinces, and the recruitment to these services need not require the sanction of the Government of India. They therefore recommended that in the case of those services, the provincial Governments should be given freedom to abolish appointments or reduce the emoluments attached to them, and to create, abolish or reduce the pay of certain classes or grades of officers.

It was admitted by the Commissioners that some of the Civil Service Regulations were too rigid and complicated, and that they curtailed the freedom of the provincial Governments too much, and

[1] op. cit., vol I, p. 40.

they recommended that these rules should be revised with a view to relaxing some of the restrictions. Similar proposals were made also for increasing the powers of the provinces in regard to public works. Concerning 'doles' they were not prepared to suggest any material alteration, although meticulous interference was admitted to be harmful.

It was clearly pointed out that a fundamental difficulty in the way of greater relaxation of central control was the fact that the Indian legislatures did not have effective control over finance If, in the near future, wider powers were given to the Councils (a proposal which was then under consideration), the Commissioners were prepared to recommend that the provincial Governments should be given greater control over their budgets, and should be allowed to tax on their own account, and be given even wider latitude in regard to provincial and subordinate appointments and minor establishments But without effective popular control from below they were not prepared to recommend any great relaxation of the control from above The Secretary of State's powers had therefore to be maintained intact, and only minor measures of decentralization were therefore practicable in the circumstances.[1]

With a view to effecting the relaxation of central control proposed by them, the Commissioners suggested that a general Act of Delegation should be passed If each item was separately taken up, it would clog the legislative machinery of India with petty amending bills for many years, but a general Delegation Act like the Sind Act of 1868 would, they thought, afford a convenient and elastic machinery for legislative decentralization [2]

§3. *The Permanent Contracts, 1912*

The proposals and recommendations of the Decentralization Commission were long under consideration, and Lord Hardinge gave effect to some of them by means of Government orders and resolutions. The Financial Resolution of 1912 and the Local Self-Government Resolution of 1915 were two noteworthy attempts at restating policy.

Although the Commissioners did not see fit to recommend any radical reform of the quasi-permanent contract system, Lord Hardinge in 1912 took the bold step of declaring the settlements permanent, and thereby did away with a system which for long caused considerable bickerings between the Government of India and the provinces.

In a dispatch of 1910,[3] the Government of India explained the circumstances which called for reform. The quasi-permanent

[1] op cit., vol I, pp 30-1

[2] op cit., vol. I, pp 143-6 The Sind Act referred to is Act V of 1868 (India) which permits the Bombay Government to devolve upon the Commissioners of Sind any functions vested in them by Acts of local application

[3] Letter to the Secretary of State, 22 November 1910 (No. 310).

settlements of 1904 were, on the whole, successful and they allayed friction between the different governments to a great extent; and if in some provinces the contracts were disappointing, that was due to exceptional circumstances It could not be claimed, however, that the declaration of quasi-permanency had led to economy on the part of the provinces, as was expected. The continuing extravagance was perhaps a legacy from the old quinquennial settlements. Or was it due to the prefix 'Quasi', which implied that the settlement might be revised when needed and probably had a psychological effect on the provincial Governments?[1] In any case, the Government of India definitely decided in favour of permanent settlements with the Provinces and disclaimed all intention of profiting by their frugality It was expected that this would give the provinces a powerful incentive for economizing their resources.

However, it was not possible even in 1912 to make an absolutely permanent settlement in view of the many disturbing influences affecting Indian finance. The conditions under which modifications might be made were greatly simplified and defined 'Widespread famine whose periodical visits still defeat our calculations, will have to be met when necessary by special arrangements for the succour of a distressed province from imperial funds.' Nor did the central Government forget their own embarrassments 'On the other hand', they said, 'the Government of India may at times be compelled to call on the provinces for assistance in case of a great war or a great financial crisis' Apart from these special emergencies, the settlements were declared to be 'fixed, rigid, and permanent'.[2]

The Resolution of 1912 also went into the thorny questions of budget restrictions and fixed assignments, and greatly relaxed the iron grip of the central Government on the provinces

Provincial budgets were not in future to be so minutely controlled by the Finance Department of the Government of India as had been the practice heretofore Modifications were to be confined to the total revenue and expenditure in the local Government's estimates, and to the figures of the few major heads in which the imperial exchequer had a share Nevertheless, there were still to be some restrictions. The provincial Governments were not to budget for a deficit in their current revenue and expenditure unless the central authority was satisfied that the excess of expenditure was due to a wholly exceptional non-recurring cause. If the deficit involved a reduction of the provincial balances below the prescribed minimum, suitable arrangements were to be made to restore it Overdrafts on the general finances of India were no longer to be allowed. If for a 'special

[1] Letter to the Secretary of State, 22 November 1910
[2] Financial Statement for 1911-12 pp. 15-17 This was promulgated in the Resolution of 18 May 1912

and temporary' reason a province was allowed to overdraw, it should be in the form of a short loan from the imperial exchequer, for which interest must be paid. But, at the same time, the central Government would not pay interest on the provincial balances left with them.

The Government of India admitted the evils of fixed cash assignments, especially on account of their unwieldy size, and on the lines of the recommendation made by the Decentralization Commission they undertook to convert, in whole or in part, unduly large assignments into shares of growing revenues as soon as the state of the imperial finances permitted [1] This was specially kept in view in the case of those provinces with an unsatisfactory financial position. It was calculated that assignments amounting to Rs. 3·5 crores would be thus converted The Government hoped that in this way the normal annual growth of the resources of each province would be brought much closer to the normal ratio of growth in its expenditure.

The practical step taken in 1912 for achieving this end was the provincialization of forest revenue and expenditure In addition to it, excise was provincialized in Bombay and was made three-fourths provincial in Central Provinces and United Provinces Land revenue was made one-half provincial in the Punjab and five-eighths in Burma Certain minor changes also followed

The Government of India were also prepared to modify slightly the conditions under which special grants were made to the provinces They accepted the Commission's recommendations in regard to the relaxation of the excessively strict control of the central Government over the provincial estimates drawn up for the utilization of those grants Nevertheless the Government of India found it impossible to leave the provinces to use the grants in whatever way they liked 'When, for example' said the central Government, 'considerable sacrifices have been incurred in order to raise money for education, it could not contemplate with equanimity its expenditure upon hospitals or bridges.'[2] However, they undertook to abstain from the minute and meticulous examination of the kind deprecated by the Commission.

The central Government were not prepared to give the provinces any power of taxation. It was admitted that such a power was indispensable for a really decentralized system of finance, and also that in grave emergencies provincial taxation would be justifiable. But under existing conditions, no such change was possible.

In another way also, the provincial Governments were given some concession. Till 1907 famine relief was wholly a provincial charge, and the central Government stepped in only when a

[1] However there were qualifying conditions (see Resolution, para 6).
[2] See Resolution, 18 May 1912.

province had exhausted its own resources. In 1907 a new famine insurance scheme was devised, by which the Government of India placed to the credit of each province liable to famine a fixed amount, on which it could draw in case of famine without trenching on its normal resources When this fund was exhausted, further expenditure was to be shared equally by the central Government and the provincial Government concerned, and in case of grave necessity the Government of India were to give further assistance to the province from its own revenue. The total amount allotted for this purpose annually was £250,000, which was roughly the average annual expenditure incurred on famine relief during the previous twenty-five years This amount was annually debited to provincial revenues under the head, Reduction or Avoidance of Debt, the share of each province being entered to its reserve of credit with the central Government Thus each province could accumulate, up to a certain amount, a reserve of credit on which it could draw in times of need.

§4 *The Unequal Treatment of the Provinces*

Certain provincial Governments pointed out to the Decentralization Commission that there was considerable inequality in the distribution of tax-burdens between the different provinces. Bombay was formerly the loudest to complain in such matters; this time its complaints were as loud as ever, but the cause of complaint was no longer unequal treatment—it was handsomely treated as compared to the rest of India—but that it was not given more autonomous powers Complaints of unequal treatment came chiefly from the United Provinces which claimed that it had to shoulder much more than its legitimate share of the imperial expenses The Government of Madras, never too noisy in ventilating its grievances, exhibited an inexplicable forbearance on this occasion; for, although non-official witnesses like Mr (afterwards Sir) B. N Sarma inveighed against the injustice done to Madras, the official memorandum scrupulously avoided any reference to its longstanding grievances Yet the Government of India themselves admitted in their letter to the Secretary of State in 1910 that Madras and the United Provinces were 'bearing the brunt of the financial burden of the Empire'.[1] In 1910 the various provinces contributed very unequal percentages of their revenues to the central Government, but in the case of some provinces a large part of the revenue thus contributed returned to them. In the following table, column 2 shows the percentage of the total revenue collections in the province which went to the central Government, and column 3 shows the proportion that the total

[1] Letter from Madras, 22 November 1910.

Government expenditure in the various provinces bore to the total revenue of the province.

Provinces	*Percentage of revenue contributed to the central Government*	*Percentage of revenue spent in the Province*
Madras	49·23	57
United Provinces	48·77	60
The Punjab	48·10	84
Bengal	36·86	76
Burma	35 07	83
Bombay	34·19	76
Eastern Bengal and Assam	34 19	72
Central Provinces	30 94	82

The above table brings out the great inequality of tax burdens in the provinces. Bombay and Bengal, the two wealthiest provinces in India, were well off The Punjab and Burma made a larger proportional contribution, but this was made up by the Government of India spending more generously in those provinces Madras and the United Provinces contributed heavily to the central Government's fisc, but the proportion of revenue spent within their territories was the lowest Thus the central Government were carrying out a redistribution of income between the different provinces.

The unequal treatment in the matter of the provincial contracts has already been mentioned According to the terms of the contracts of 1904, Bombay received one-half of the revenues under the heads land revenue, stamps, excise, income-tax and forests, while Madras had one-half of the stamp revenue and only one-fourth of the other four Subsequently the matter was pressed upon the attention of the Government of India and in 1908, just when the Decentralization Commission was touring in India, Madras was given one-half of all these items of revenue This equality of treatment, however, was shortlived; the permanent settlement of 1912 was not favourable to Madras Both Madras and Bombay obtained the whole revenue under forests and registration fees and one-half of various other items, but in the case of excise, Madras was given only one-half of the revenue while Bombay was allowed to retain the whole of it, less a fixed assignment equal to one-half of the revenue accruing at the time of the settlement. The difference was not small; for, had Madras been given the same terms as Bombay, its revenue in 1919-20 would have been Rs. 95 lakhs more than it actually was in that year [1]

[1] Parliamentary Paper—East India Constitutional Reforms (Financial Relations), C 974 (1920), p. 31.

In the matter of grants also, certain provinces were treated rather liberally, while others were comparatively neglected. The following table shows this fact :

Total Grants for Education for the Period 1911-12 to 1919-20

Province	Population	Recurring Grant
Madras . .	41½ millions	Rs 28 50 lakhs
Bengal . .	45½ ,,	,, 41 81 ,,
Bombay .	19½ ,,	,, 21·45 ,,

Nor was Madras better treated when the opium surplus in 1910-11 was distributed in March 1911; it received only 11 lakhs, out of a total of 147 lakhs for education and sanitation, and nothing out of Rs. 104 lakhs distributed among the provinces for other purposes [1]

The Government of India defended the existing inequalities on the ground that they were the inevitable result of circumstances and not the outcome of any favouritism. The revenues of India constitutionally belonged to the central Government and were meant for the administration of the whole country, and it was inevitable that the central Government should draw additional revenue from those who were able to pay and spend it on those who were needy Yet, in their opinion, this policy was not pushed to such lengths as 'to starve one province in its necessities in order to load another with luxuries' [2] Any sudden rectification of these inequalities would cause confusion to the provinces. If, for instance, a contribution of only 40 per cent of the total revenue of every province were levied by the central Government, as was suggested by certain persons to the Commission, it would have resulted in 'the bankruptcy of the Central Provinces, at one end of the scale, and at the other an influx of wealth into Madras which that province would find great difficulty in utilizing' [3]

Of these arguments one certainly had some validity So long as India was not a federation, it was perfectly legitimate for the central Government to use the revenues in whatever ways they deemed essential for the peace and security of the Empire It was also in conformity with orthodox canons of taxation to apportion the tax-burden according to ability to pay. But this point was rather neglected by the central Government Bengal and Bombay were the wealthiest provinces in India, and what was even more material, their wealth was derived from industry and commerce; but the burden of taxation fell more heavily on the poorer agriculturists of Madras and the United Provinces. While land was rather heavily taxed, at least in some provinces, industry and trade had only light burdens to bear as the income-tax was still

[1] Government of India, Financial Statement (1911-12), p 170
[2] Financial Resolution (1912), para 7.
[3] Letter from the Government of India to the Secretary of State, 22 November 1910

undeveloped. The statistics available for comparing the incidence of various taxes are far from perfect, but judging from the figures available, there were great inequalities, as between provinces. The assessment per cultivated acre was as low as 10 as in the Central Provinces, and even in Bombay, it amounted to only Re 1-5-7, but in Madras it was Rs. 2-8-11. The statistics of many other taxes tell the same tale. The excise on country spirits, for example, was Rs 11-2-2 per proof gallon in Madras, whilst it was much lower in most other provinces. Bengal levied only Rs. 9-13-7 per gallon, and the levy in Bihar and Orissa was as low as Rs. 4-4-4 per gallon The tree-tax which brought in a revenue of Rs 105 lakhs in Madras was not levied in several other provinces. Madras, again, retained the mediæval system of levying tolls, which brought in Rs. 25 lakhs. Nor was the level of income-tax lower in Madras than in other provinces, as was often supposed. This is clear from the fact that the Nattukottai Chettiars who did business both in India and in Burma preferred to pay their income-tax in Burma, as those shrewd businessmen found that they could escape two-thirds of the tax thereby.[1] In the case of local taxation also, there were inequalities in the burdens borne by the different provinces In the following table, the comparative burden of land revenue per acre of cultivated land and the per capita burden of local taxation in the different provinces 1915-16 are shown

	Land revenue burden per cultivated acre[2]	*Local taxation per head*[3]
	Rs as ps	Rs as ps
Madras (ryotwari)	2 8 11	0 6 1
Bombay (ryotwari)	1 5 7	0 6 3
Bengal (zamindari—permanent)	0 15 10	0 3 8
United Provinces		
Agra (zamindari—temporary)	1 13 8	0 3 8
Oudh (zamindari—temporary)	1 15 3	
Punjab (zamindari—temporary)	1 12 1	0 6 9
Bihar and Orissa (zamindari—permanent)	0 7 11	0 3 8
Central Provinces (zamindari—temporary)	0 10 0	0 4 6

The Government of India feared that a revision of the existing settlements on an equitable basis would produce 'an influx of wealth into Madras which that province would find great difficulty in utilizing'. Apparently the central Government assumed that

[1] This is based on an estimate by the Collector of Ramnad Letter from the Government of Madras to the Government of India, 1 June 1920, Annexure 3, para 19. See Parliamentary Paper (C 974), 1920, p 32.

[2] *Agricultural Statistics of India* (1915-16), vol I, pp 8-9

[3] *Statistics of British India* (1919), vol. IV, p 200.

expenditure in Madras had been already pushed to the highest level needed for normal efficiency. Yet the facts were quite the reverse. With a population of 41½ millions, Madras spent only Rs. 9·60 crores in 1919-20, whilst Bombay with a population of 19½ millions spent Rs 10·52 crores The expenditure per head of population in Madras on education, police and medical relief was less than half that of Bombay, and this was more or less true of sanitation, and certain other important heads also As the Government of Madras put it in the letter already cited · 'Progress has been delayed in almost every direction There is only one elementary school for boys for 681 of the total male population There is only one qualified teacher for 68 boys under instruction There is only one drainage scheme outside the Presidency town, which itself is only partially drained The benefits of water supply have been extended only to 27 out of 75 municipalities. There is only one qualified medical practitioner for every 22,000 of the population'[1] Thus, by starving the most essential public utility services Madras contributed liberally to the imperial exchequer. Further, the salaries in the subordinate services were lowest in Madras, and had not been raised to make up for the increased cost of living.

One cause of the lower level of expenditure in Madras was the relatively larger size of districts, and consequently the smaller number of collectors, judges and medical officers in that presidency The following table will illustrate the extent of the expansion of administrative machinery in the different provinces[2]

Province	*Number of districts*	*Average population per district (millions)*	*Average area per district (sq miles)*
Madras	25	1·86	5,600
Bombay	26	·84	4,730
Bengal	28	1·79	2,821
United Provinces	48	1·01	2,229
Punjab	30	·78	3,300

To have more policemen, registration offices, and court houses may be a doubtful blessing for any country, but to have more schools, experimental farms, irrigation works and hospitals can only mean greater social welfare When districts and divisions are too large, administration cannot be of an intensive type, and such districts, naturally, develop too slowly. Besides, the officers in the undermanned districts are necessarily overworked,

[1] Letter, 1 June 1920, Annexure 3, para 22 [2] ibid, para 23

and that generally means a lack of efficiency and an imperfect contact between officers and the people [1]

These facts had been repeatedly brought to the notice of the authorities by the public as well as the Government of Madras [2] But nothing substantial was done to remove these inequalities till 1919.

§5. *Changes in the Budget System*

Although the Indian Councils Act of 1892 provided that the annual budgets of the provinces should be presented and discussed in their Legislative Councils, this did not involve any real control of finance by the representatives of the people, as the Council had for long an official majority Members could make observations on the budget, and this they did freely; but they had no right to move resolutions or to divide on any proposal However, two or three days were set apart for the discussion of the budget, and the members took full advantage of it.

The Indian Councils Act of 1909 not only provided for non-official majorities in the Provincial Legislative Councils and substantially reduced the official majority in the Central Legislative Council, but also gave the members of both the Legislatures the right to move resolutions and to divide on them However, certain heads of revenue and expenditure were excluded from discussion by the Legislative Council The principal heads of revenue thus excluded were customs, stamps, court fees, assessed taxes and tributes from Indian states, and the principal heads of expenditure excluded were army and marine charges, interest on debt, assignments and compensations, and territorial and political pensions

The Financial Statement of the central Government was considerably modified under the Act of 1909 Part I of the Statement thus came to include, besides the speech by the Finance Member, a statistical statement of (1) the closed accounts of the previous year, (2) revised estimates of the year just coming to a close, and (3) the preliminary forecast for the coming year. Part II, the explanatory memorandum by the Financial Secretary, was also amplified with fuller details of revenue and expenditure The budget procedure was also elaborated and systematized It consisted of five stages. The first was the introduction of the budget at the close of February; next came the consideration of fresh

[1] See O'Connor, *Judicial and Administrative Statistics of British India*, where he shows that in Madras each Collector had to collect on an average Rs 28 lakhs of land revenue and cesses, in Bombay Rs 17 lakhs, in Bengal Rs 9 lakhs Thus a Madras Collector's responsibility was almost three times that of a Bengal Collector This was the cause of the hard work complained of by the Madras officers to the Decentralization Commissioners and to this was attributed the loss of contact between the officers and the people [*Dec Comm Proceedings*, vol II (Madras), pp. 242, 247, 249]

[2] Madras Chamber of Commerce (Annual Volume), 1897, pp 207-15, 1900, pp 81-2, 1901, pp. 129-37; the Public Memorial from Madras to the Viceroy, 2 September 1901 (Parliamentary Paper, C 947 of 1920), pp. 83-5.

proposals. Then the whole Council went into Committee and an official Member explained the figures under each of the major heads of account which were open to discussion. At both the second and third stages, members could ask for further information and move Resolutions. Such Resolutions would be discussed and the Council could divide on them. After this came the fourth stage, the presentation of the budget in its final form incorporating the modifications agreed upon, and with it was delivered the speech by the Finance Member. Finally, there was a general discussion at an adjourned meeting of the Council, and the Finance Member and the President of the Council made their final speeches.

Thus, in form, the budget procedure was elaborate, but in reality, the financial administration was entirely controlled by the Government.

CHAPTER XXIII

FINANCIAL DEVELOPMENTS, 1905-20

IMPORTANT changes took place, between 1905 and 1920, in the revenues and expenditure of the governments in India. The increasing outlay on education, agriculture and other social services involved considerable additions to the civil charges, while the reorganization of military services and the World War of 1914-18 swelled the expenditure on defence. The older heads of revenue—land revenue, opium and salt duty—proved to be incapable of meeting the strain, but the newer sources like customs and income-tax were made to yield larger amounts. The excise revenue also expanded. In this way a modern system of revenue was evolved in India during the period under survey. The years between 1905 and 1920 fall into two well-marked periods: pre-War (1905-13) and War (1914-20).

§1 *Pre-War Period*

The impetus given by Lord Curzon to agricultural research and to educational and police reform was maintained under Lord Minto and Lord Hardinge. In 1905 permanent annual grants were made to the provincial Governments for the improvement of primary education (£233,000), for police reform (£333,000) and for the development of agricultural research (£133,000). These grants were subsequently increased and thus the provinces were enabled to spend more on those services. Similarly, permanent grants amounting to £377,000 a year were also made to District and Local Boards all over India. The famine insurance scheme adopted in 1907 also increased the burdens of the central Government. On the defence side, the implementing of Lord Kitchener's scheme for the reorganization of the army cost the Government more than £2,000,000 annually for some years.

While expenditure was thus growing, the older heads of revenue were either stationary or falling. Opium was the most vulnerable of the revenue sources of India, as it depended largely on consumption outside the country. From 1907, agreements were made with China for the gradual diminution and ultimate extinction of the export of Indian opium to China. By the first agreement (1907), total exports from India were to be limited to 61,900 chests in 1908 and to be reduced by 5,100 chests in each of the succeeding years. By another agreement (1911), Government were to issue a certificate for each chest exported and provision was made for an early cessation of the exports to China. The quantity exported to China thus fell rapidly from 1908. In order to make

up for the consequent fall of revenue, the customs and excise duties on liquor, and the customs duty on tobacco, silver and petroleum, were increased in 1910. However, this revenue did not immediately show a corresponding decline, owing chiefly to the rise in the price of opium and to the fall in its cost of production. Thus revenue rose for a time; and these windfalls were utilized for reducing debt and making larger grants for expenditure on education. After 1912, the exports became much smaller.[1]

The revenue from salt recorded a steady decline during the period. Taking advantage of the series of budget surpluses after 1900, Indian leaders like G K Gokhale carried on a persistent agitation for the reduction of the salt tax, and the Government reduced the duty successively from Rs. 2-8 a maund in 1900 to Rs. 2 in 1903, Re 1-8 in 1905 and finally to Re. 1 in 1907. These reductions in duty led to a regular decline in revenue and the increase in consumption, although large, was not enough to make up for the falling rates

The revenue from provincial rates also declined considerably, owing to the abolition in 1905-6 of several of the cesses under this head and owing to the disappearance of others which had been transferred to local funds.

As for land revenue, an increase was possible only in temporarily settled tracts, and even there the revenue as a whole remained more or less stationary owing to the prevalence of unfavourable agricultural conditions in one part of the country or another.

There was, however, an improvement in the customs, excise, income-tax and railway revenues Evidently there was a great increase of trade, both external and internal, during the period, and this enabled India to modernize her tax system. The increase of customs revenue was largely due to the great expansion of foreign trade during the period, as will be clear from the following table .[2]

Year	*Imports £* (000)	*Exports £* (000)
Average of 1880-1 to 1884-5	33,754	52,964
,, 1885-6 to 1889-90	40,798	59,168
,, 1890-1 to 1894-5	45,647	67,623
,, 1895-6 to 1899-1900	46,956	69,100
,, 1900-1 to 1904-5	55,745	87,336
,, 1905-6 to 1909-10	77,297	111,943
1910-11	86,236	137,081
1911-12	92,383	147,878
1912-13	107,327	160,899
1913-14	122,165	162,800

The enhancement of rates was also partly responsible for the

[1] *Moral and Material Progress Report*, 1911-12, pp 190 1, 195.
[2] Ibid , 1911-12, p 285, 1912 13, p 67, and 1913-14, p. 66.

increase in the customs revenue. In 1906 the duty on imported spirits and liquors was raised from Rs 6 to Rs. 7 per proof gallon. In 1910, on account of the apprehension of a fall in the opium revenue, further enhancements were made in the duties on liquor, tobacco, silver and petroleum.

During the same period the excise revenue also increased considerably When the import duties on liquors were raised in 1910, the excise duties on them were also increased. Thus the excise revenue rose from £4,000,000 in 1901-2 to £8,456,771 in 1913-14 The increase under stamps was also substantial, especially after 1910, when the rates were raised

Till 1900, the Railways were a source of embarrassment to the Government of India But from that year a net profit accrued to the State from their working By 1913-14, the revenue from the Railways had risen to £4·7 millions annually

The period under survey was on the whole a prosperous one and, except in 1907-8 and 1908-9, there were substantial surpluses in the central budget It was therefore possible to distribute the large grants for provincial expenditure mentioned above.

§2. *Indian Finance during the War: Increased Revenues*

The period 1914 to 1920 was one of heavy taxation, high prices and an embarrassing financial position This was chiefly the result of the World War of 1914-18 Apart from making a handsome contribution (£100 millions) to Great Britain for war expenses, India had also to make large additions to her own military expenditure The expenditure on defence rose from £20·2 millions in 1913-14 to £60 7 millions in 1920 Even after the conclusion of peace the defence charges went on increasing owing to the reorganization of the Indian Army, the Afghan war and the operations against the restless tribes on the North-West Frontier. As a result the expenditure on military services came to nearly Rs 70 crores in 1921-2 At the same time the civil expenditure also increased, rising from £16 millions in 1913-14 to £23·7 millions in 1919-20 This was mainly due to the increase of prices and the increased expenditure it involved on establishments and salaries. The following table shows the budget position in regard to the civil and military services:

Year	Total revenue £	Total expenditure £	Surplus (+) or Deficit (−) £	Military charges £
1913-14	85,207,175	82,894,752	+2,312,423	21,265,765
1914-15	81,157,666	82,942,936	−1,785,270	21,809,603
1915-16	84,113,537	85,602,198	−1,188,661	23,503,093
1916-17	98,050,430	90,572,260	+7,478,170	26,566,757
1917-18	112,662,347	104,575,273	+8,087,074	30,763,650
1918-19	123,257,744	127,078,153	−3,820,409	46,830,210
1919-20	131,657,287	117,425,876	−15,768,589	60,688,699

As the War was not expected to last very long, the budget deficit for 1914-15 was met by temporary borrowing, but it became clear before long that additional taxation was essential and it was soon imposed. In the meantime, however, there was considerable borrowing at high rates of interest The public debt of India which stood at about Rs 500 crores in 1914 rose to about Rs 700 crores by 1919, and the interest charges increased from £1·5 millions in 1913-14 to £8·9 millions in 1919-20 The increase was principally due to the annual charge on India's war contribution of £100 millions

Raising additional revenue from taxation is exceptionally difficult in a country like India which still depends so largely on agriculture. The scope for direct taxation—the sheet-anchor of war finance—is therefore very limited Nor were there better prospects of increasing the revenue from indirect taxation at the outbreak of the War Customs revenue had indeed been steadily rising owing to the rather rapid expansion of foreign trade But the War placed a serious impediment on the free flow of trade As a result partly of the dislocation caused by the War and partly of the restrictions imposed on trade in the interests of the Allies, there was a rapid shrinkage in the sea-borne trade of India soon after the War broke out The imports fell in value from £122 millions in 1913-14 to £87·5 millions in 1915-16 and the exports fell from £162·8 millions to £128 3 millions in the same period The customs revenue also fell from £7·5 millions in 1913-14 to £5 8 millions in 1915-16

The situation was indeed serious, but Sir William Meyer, the resourceful Finance Member, handled it dexterously The general import tariff of the country still remained at 5 per cent , as laid down by the Indian Tariff Act of 1894 In 1916 the general tariff was raised to 7½ per cent ; the rate of 1 per cent on certain classes of iron and steel goods was raised to 2½ per cent. and import duties were imposed on railway materials which had hitherto been free The import duty of 3½ per cent *ad valorem* on woven goods was not revised The question of raising it was considered, but the strong opposition from Lancashire prevented it [1] An export duty had already been levied on rice, export duties on jute and tea were added in 1916 Special import duties were levied, on sugar at 10 per cent , on silver bullion and coin at 4 as per oz , on silver manufactures at 15 per cent (reduced to 10 per cent in March 1917), on coal at 8 as. a ton, on arms and ammunitions at 20 per cent , on cigars and cigarettes at 50 per cent., on petroleum at 1 anna 6 pies per imperial gallon, on petrol at 6 as per gallon, and on spirits at varying rates but generally at Rs. 11-4-0 per imperial gallon.

There were further increases in the tariff in 1917. The import duty on cotton goods was fixed at 7½ per cent. *ad valorem*. The

[1] Budget Statement (1916-17), pp. 13-14.

export duty on jute was also doubled. The raising of the import duty on cotton goods, without a corresponding increase in the countervailing excise duty caused heart-burnings in Lancashire, but the Government of India effectively put forward the plea that an increase in the duty was necessary to enable India to pay the War contribution The result was a sharp rise in the customs revenue, from £5·8 millions in 1915-16 to £15 millions in 1919-20. These high import duties were reduced after the War, as we shall see later.

Another source to which the Government turned for additional revenue was the income-tax Till then the revenue from income-tax hardly amounted to £2 millions Personal incomes above Rs. 1,000 were subject to tax, but the rates were the same for all incomes In 1916 the rates on incomes above Rs. 5,000 were placed on a progressive basis ranging from six pies to one anna in the rupee The profits of companies and the interest on securities which hitherto paid 4 pies if below Rs 2,000 and 5 pies if above, were also made subject to the enhanced rates, but an abatement was allowed in the case of the smaller share-holders and security-holders Over and above the ordinary income-tax, a super-tax was also levied from 1917-18 on incomes above Rs 50,000, at rates rising from one anna in the rupee to three annas In 1920 the super-tax was brought into relation with the ordinary income-tax and began to be levied at a flat rate of one anna in the rupee on the whole income of companies and firms in excess of Rs. 50,000. The prolongation of the War and the increasing expenditure it entailed led to the levy, in 1919, of an excess profits duty on all businesses which made a return of profits exceeding Rs. 30,000, with the exception of agriculture, salaried and professional employments depending upon personal skill, and concerns which already paid the excess profits duty in the United Kingdom Excess profits were defined as the difference between the profits returned in 1918-19 and the average of the profits returned in the two pre-War years and the first two years of the War, and the levy was half the excess But this levy was made only for one year and was not renewed in 1920. As a result of these enhancements, the revenue from income-tax rose from £2 millions in 1913-14 to £15·5 millions in 1919-20

The revenue from railways also expanded during the period. Owing to the great increase in the demand for transport facilities for munitions purposes and movement of troops, the existing rolling stock was used to its full capacity, and railway receipts mounted up. The increase of railway traffic was also partly due to the shortage of coastal shipping and the greater activity of internal trade resulting from the increased production of war materials for export to the allied countries. In this way the net receipts of railways increased from £15·8 millions in 1914-15 to £21·3 millions in 1919-20.

The revenues from opium and salt were also made to expand to some extent during the war. By the agreement of 1911 the opium trade with China came to an end in 1915, and the revenue from opium fell to the low figure of £1·5 millions in 1914-15. As, however, the Turkish supply was cut off at this time, the Government of India were able to nourish the European market for Indian opium Arrangements were also made for the supply of Indian opium to the Straits Settlements, Hongkong, Dutch East Indies, Siam and other parts of Asia. Thus the opium revenue increased to £3·3 millions in 1918-19.

The attempts at increasing the revenue from salt were not equally successful. In 1916 the tax was raised to Re 1 per maund in India and the same rate was introduced into Burma in 1917. But the increase in revenue was small, as may be seen from the table below, which gives in a nutshell the increase of revenue under various heads

Revenue Heads	(In crores of Rupees)		
	1914-15	1917-18	1920-1
Land revenue ..	31 8	32 4	32 0
Provincial rates	06	03	04
Income-tax	3 05	9 50	22 2
Customs . ..	9 4	16 5	31 9
Salt (net) .	5 4	7 7	5 8
Opium (net) ...	1 5	2 9	2 3
Excise ...	13 2	15 1	20 4
Railways (net)	3 3	14 9	5 6
Total revenue . .	121 7	167 3	204 9

§3 *Features of War Finance, 1914-19*

The War exposed the Indian financial system to a serious strain and created various difficulties in regard to currency, foreign exchange and public debt During the War, the Government had to raise large revenues and make extensive disbursements; owing to an excess of exports over imports the balance of trade in favour of India increased abnormally and this led to the issue of vast quantities of currency notes against unrealizable paper credits in London. Thus the note issue was made practically inconvertible for a time. The abnormal demand for India's staples and the large increase in the quantity of money led to a price boom with all its ugly economic and social consequences Consequently, there was an unprecedented demand for silver whose price soared to dizzy heights and owing partly to this and partly to the abnormal trade situation, there arose wide fluctuations in the rupee exchange which adversely affected Indian trade and industry at a critical time. Owing to the soaring silver prices, the Indian currency

system was brought to the straits in 1918, and possibly a declaration of inconvertibility would have followed had it not been for the Pitman Act of the United States, which enabled India to purchase 200 million ounces of silver from that country and thus weather the storm.

As soon as the War broke out, there was a run on the Post Office Savings Bank, the treasuries and the Currency Offices The Government met these demands fully and promptly and handled the situation dexterously But other difficulties lay ahead. The Government's ways and means operations caused considerable anxiety. No doubt the Government had in the last resort ample resources to draw upon both in India and in England, but the money did not lie where it was wanted The Government balances were locked up in a large number of independent treasuries scattered all over the country, and only a small part was kept in the Presidency Banks This aggravated the Government's difficulties besides increasing the seasonal monetary stringency in the country

An embarrassing situation was created by the large disbursements in India on behalf of the British Australian and East African Governments amounting in all to over £240 millions during 1914-19, and by the heavy selling of Council Bills to finance the swelling exports The principal resources which the Government used for meeting these demands were (1) the accumulated surpluses of the central and provincial Governments, (2) War loans raised in India including the Post Office Cash Certificates, (3) the issue of short term Treasury Bills from 1917-18 maturing in 3, 6, 9 and 12 months, (4) the expansion of paper currency against the holding of British Treasury Bills in London and later against 'created' securities, and (5) the coinage of silver remitted by the Secretary of State and by the Government of the United States under a special arrangement as mentioned above [1]

Some valuable lessons were learnt by the Government of India during the crisis of 1914-19 The most important of them from our point of view were in regard to borrowing Till the War broke out, whenever a loan of considerable size was contemplated, the Indian Government invariably turned to the English money market on the ground that loans could be raised at lower rates of interest in England than in India and that the 'shy' capital of India could not be brought out by ordinary modes of coaxing During the War the resources of the English money market were fully employed by the British war demands and it was not therefore possible for the Government of India to float loans in England. Sheer necessity therefore compelled the Government to raise loans in the Indian money market, but the attempt was by no means disappointing. Before the War, rupee

[1] S. G. Panandikar, *Economic Consequences of the War for India* (1921), pp. 179-220.

loans did not exceed Rs. 3 crores in any one year, but in 1917 the Government raised an amount of Rs. 53 crores, followed by Rs. 57 crores in 1918 Thus the strength and potentialities of the Indian money market were proved beyond doubt. This was in many ways an important revelation and it has turned out to be gratifying to both England and India

For the moment however what interested the Government most was that it could pay India's war contribution and could obtain funds for financing war expenditure within the country. It was also realized that the people of the country would benefit by the interest on the loan being disbursed in the country.[1] Other important consequences soon came to light Hitherto the subscriptions to the loans raised in India had come for the most part from a few banks and financial houses The loans were allotted on tender, and it was therefore hardly possible for small investors to subscribe to them As early as 1917-18 the Finance Member, Sir William Meyer, dwelt on the need for 'creating opportunities for the small investor—a class which has been too neglected in India'.[2] The issue in 1917 of Post Office Cash Certificates for very low amounts made it possible for men of small means to invest in war loans. Other loans also were within the means of the smaller investor The result was a large increase in the number of people who were holders of Government securities. In 1917 the number of investors, excluding purchasers of Cash Certificates, was 155,103; whilst 227,706 persons subscribed to the 1918 loan

Sir James Meston, who followed Meyer as Finance Member, fully realized the significance of these new developments In his Financial Statement for 1919-20, he wrote 'It is clearly of the highest importance that we should do all we can to retain and if possible increase, our new *clientele* and so foster the seed which we hope we have sown In the first place, India, if she is to exploit to the full her vast natural resources, will require a large outlay of capital both by the Government and by private enterprise, and for this purpose a steady stream of investment within India is essential Secondly, the gradual spread throughout the country of a habit of investment will help to divert to fruitful purposes India's sterile hoard of precious metals to the mutual advantage of the individual and the State Thirdly, the effect of the substitution of investment for hoarding will minimize India's demand for future additions to her metallic currency and thus help to solve one of the most pressing problems in front of us Progress in this direction must, I need hardly say, go hand in hand with the very necessary development and extension of banking facilities'[3]

Another financial innovation during the War was the issue of

[1] Financial Statement (1918-19), p 23
[2] Financial Statement (1917-18), p 73
[3] Financial Statement (1919-20), p. 15.

Treasury Bills, the need for which arose in connexion with the large disbursements on behalf of the British War Office and the heavy sale of Council Bills in London The issue of Treasury Bills has since become a normal feature of Indian finance and its advantages need not be described here.

In spite of such timely measures of increased taxation and financial adjustment, the year 1918-19 closed with a deficit of Rs. 6 crores and in the year 1919-20 the deficit amounted to Rs 24 crores For the time being, however, boom conditions prevailed; the foreign demand for India's produce was still strong, and as a result there was a large balance of trade in India's favour and the rupee exchange ruled high. But the boom soon collapsed, as we shall see presently

CHAPTER XXIV

FIRST STEPS IN RESPONSIBLE GOVERNMENT

§1 *An Essential Condition for Devolution*

THE inquiries of the Decentralization Commission made it clear that no further advance in financial decentralization was possible until government in India came under some degree of popular control It was generally agreed that, in the interests of efficiency as well as harmony, provincial Governments should have greater financial powers, but no devolution was possible so long as they were managed and controlled so completely by officials The British mind has always been suspicious of bureaucratic control, and this was the psychology behind the constant watch kept on Indian governments by the Secretary of State—a vigilance which grew in intensity with every increase in governmental activity in India This was also the chief motive behind the interference by Parliament in Indian affairs, and there have always been public men in Britain vigilantly following the trend of developments in India Parliamentary intervention in Indian affairs has not always been beneficial; but in many cases it was due to a desire not to give a free hand to a bureaucracy operating in a distant country In these circumstances, Parliament guarded jealously its right to keep a strict control over the governments in India

It is interesting to note that Indian opinion was nearly in unison with British opinion in this matter The successive measures of financial decentralization did not excite any great enthusiasm among Indian political leaders; they held that the transfer of power sought was merely from one official Government to another, and although they realized that financially autonomous provincial Governments would work more effectively for the material development of the country and thus ensure a more rapid growth of social services like education and sanitation, they nevertheless were against giving greater powers to the provincial Governments until they were deofficialized to a considerable extent This was the reason why the Indian witnesses before the Decentralization Commission were lukewarm in their advocacy of increased powers for the provincial Governments The exclusion from their terms of reference of the question of relaxing Home control, which Lord Morley insisted upon, made it impossible for the Commission to diagnose the disease properly and suggest any radical remedy On this ground Sir Pherozeshah Mehta, perhaps the foremost Indian leader of the day, even declined the invitation to submit his views to the Commission. 'No official decentralization standing

by itself would be of much benefit,' he wrote, 'unless it were safeguarded by such checks as could be provided for by measures of publicity and popular control.' 'In some respects,' he added, 'large powers in the hands of local officials, unless so guarded by checks, might prove more oppressive than at present.'

Gopal Krishna Gokhale and Bal Gangadhar Tilak, leaders respectively of the moderate and the extremist wings of the national movement, appeared before the Commission, but expressed the same views as Mehta. Gokhale feared that 'local despotisms' might arise in the provinces and districts if popular control was not provided for. He agreed that the Collector's position was being impaired by various influences, but he would not recommend any increase in that officer's powers unless he was associated with, if not controlled by, popular representatives [1] Tilak saw in the call for greater decentralization 'the cry of local officers to get a freer hand', and he flatly denied that the Indian public were interested in such decentralization Sir B N Sarma was not prepared to recommend any relaxation of central financial control, 'until the people were in a position to have a voice in questions of taxation and expenditure' [2]

But how and when were the Indian people to obtain control over their governments? On this point opinion differed among British administrators in India In earlier days, benevolent officers like Sir Thomas Munro and Sir M. Elphinstone had no doubt that they were only preparing India for future self-government, and several others repeated similar generous sentiments in the course of the nineteenth century Lord Ripon went farthest among them all His faith in popular government was too robust to be disturbed by the social and political impediments to the growth of democracy in India, and he declared unequivocally that the Government's purpose in increasing the responsibilities of municipalities and local boards was to give the people political training [3]

But other administrators, equally disinterested, seriously doubted whether India would become fit for self-government at any conceivable date They were more impressed by the absence of national unity, the frequency of Hindu-Muslim riots, the low level of education among the common people, and in particular the vastness of the country and its population Sir Henry Maine expressed the view that, 'Human experience affords us no ground at present for supposing that the institutions of popular government . are capable of being applied at all to numbers expressed by such figures' (as in India). But, Maine was no friend of popular government and was a severe critic of it even in Western

[1] For Gokhale's views, see *Decentralization Commission Proceedings*, vol VIII, p. 305

[2] op cit , vol. II (Madras), p 305.

[3] Ripon wrote in 1881 'I get more radical every day, and the effect of despotic power has so far been to strengthen my liberal convictions.' Wolf's *Ripon*, II

Europe. He considered it as a passing phase in human development. But it may be remarked that fitness for popular government is not an essential condition for self-government

Although the distant goal was not at all clear, efforts were made from 1861 to give the people of India a growing share in the government of the country A few nominated Indian gentlemen sat in the Indian Legislative Council from 1861, and from 1892 their numbers increased and some of them were selected from certain public organizations It was clearly stated that the object of adding these few Indian members to the Council was not to give them political training but to obtain the benefit of their criticism on the legislative measures contemplated by the Government from time to time. The Legislative Councils in those days did not discharge any deliberative functions, they only made laws

In 1909, the number of Indian members in the Legislative Councils was largely increased and most of them were elected. An Indian Member was appointed to the Executive Council of the Viceroy All this was done, not with a view to the introduction of a Parliamentary system of government in India, but to satisfy the ambition of educated Indians and thus 'to fortify the basis of authority on which peace and order and all the elements of public good in India depend'[1] Lord Morley, the author of the reforms of 1909, flatly denied that it was his intention to introduce a parliamentary system into India, and he went to the extent of declaring that, even if his life were prolonged to twenty times its normal length, he would never make that system the goal in India However, under the reforms introduced by him, the provincial Legislative Councils were so constituted that they could not be expected to work smoothly. Many of them had non-official majorities and, since they were given the power to criticize, it became difficult to withhold indefinitely the right to control policy

§2 *The Durbar Dispatch*

The Coronation Durbar of December 1911 was made the occasion for an important pronouncement on Indian policy by His Majesty the King-Emperor It contains in germ the principle of provincial autonomy, and may be quoted in full

The maintenance of British rule in India depends on the ultimate supremacy of the Governor-General in Council, and the Indian Councils Act of 1909 itself bears testimony to the impossibility of allowing matters of vital concern to be decided by a majority of non-official votes in the Imperial Legislative Council Nevertheless it is certain that in the course of time the just demand of Indians for a larger share in the government of the country will have to be satisfied and the question will be how this devolution of power can be

[1] *Report on Constitutional Reforms* (1918), p 48.

conceded without impairing the supreme authority of the Governor-General in Council. The only possible solution of the difficulty would appear to be gradually to give the provinces a larger measure of self-government, until at last India would consist of a number of administrations, autonomous in all internal affairs, with the Government of India above them all and possessing power to interfere in cases of misgovernment, but ordinarily restricting their functions to matters of imperial concern In order that this consummation may be attained, it is essential that the Supreme Government should not be associated with any particular provincial Government The removal of the Government of India from Calcutta is therefore a measure which will in our opinion materially facilitate the growth of local self-government[1] on sound and safe lines. It is generally recognized that the capital of a great central Government should be separate and independent, and effect has been given to this principle in the United States, Canada and Australia.

This pronouncement contains three connected ideas (1) that the just demands of Indians for a greater share in government can be met in the provincial sphere; (2) that therefore provincial autonomy should be the goal to be aimed at, and (3) that the establishment of the capital in a territory outside provincial limits would be a necessary step towards provincial autonomy The tenor of these announcements led Indian politicians to hope that a change in the government of the provinces would shortly be made as a beginning towards provincial autonomy But this hope was soon shattered On 24 June 1912 the Secretary of State (Lord Crewe) spoke as follows in the House of Lords

> There is a certain section in India which looks forward to a measure of self-government approaching that which has been granted in the Dominions I see no future for India on these lines The experiment of extending a measure of self-government practically free from parliamentary control to a race which is not our own, even though that race enjoys the services of the best men belonging to our race, is one which cannot be tried It is my duty as Secretary of State to repudiate the idea that the dispatch implies anything of the kind as the hope or goal of the policy of the Government

On 29 June, adverting to the same point, he said 'There is nothing whatever in the teachings of History, so far as I know them, or in the present condition of the world which makes such a dream even remotely possible Is it conceivable that at any time an Indian Empire could exist, on the lines, say of Australia and New Zealand, with no British officials and no tie of creed and blood which takes the place of these material bonds? . . To me, that is a world as imaginary as any Atlantis or any that was ever thought of by any ingenious brain of any imaginative writer.' This was another blow, and a worse

[1] The use of the term 'Local self-government' to denote provincial autonomy is altogether misleading and even confounding; but such use was not uncommon in those days.

disillusionment, to the expectant politicians who had not yet recovered from the after-effects of Morley's pronouncement of 1909.

However, Lord Hardinge who was more tactful than his principal at Home, went on seeking out and setting in order 'many inventions in the domain of decentralization'[1] It was not for him to deal with 'vague and distant aspirations' and he was satisfied with more reasonable and practical aims. A Royal Commission was appointed in 1912 to inquire into the possibilities of giving a greater share to Indians in the public services A Legislative Council was established in the Central Provinces. Hardinge also tried hard to strengthen local self-government. By an Act of 1912 (Act XIII) the City of Delhi and part of the Delhi District were separated from the Punjab and placed under the immediate authority of the Governor-General in Council Thus, although at too heavy a cost, India secured a capital which occupies a position analogous to that of Washington in the United States, Ottawa in Canada and Canberra in Australia

But, those 'vague and distant aspirations' went on persistently claiming recognition, and although the outbreak of the War led to a temporary cessation of agitation and a sincere expression of loyalty, the disaffection was working underneath and it expressed itself in a revolutionary movement which worked mostly outside the country.

§3 *The Darkness before Dawn*

The anomalies of the situation became most pronounced in the period between 1912 and 1917 In spite of the pronouncements of 1911 and the many liberal measures carried through by Lord Hardinge, the position of the provincial Governments did not improve to any material extent On the other hand, we have grounds for thinking that the control of the central Government was further tightened and that all provincial efforts which did not tally with the central Government's intentions were vigorously opposed

General Sir O'Moore Creagh, who was Extraordinary Member of the Viceroy's Executive Council from 1909 to 1914 wrote as follows in a book published in 1917[2] 'The interference of the Government of India with local Governments is such that a theoretical authority is alone left to them The provincial administration is hampered and controlled in all things by the Government of India . When I joined the Government of India in 1909, this state of things was bad enough. When I left in 1914, it was infinitely worse, and then all the indications were that it was only a matter of time until the position of local government would become wholly impossible, that is, if some definite policy of

[1] *Report on Constitutional Reforms* (1918), p 5.
[2] *Indian Studies* (1917), passim.

devolution were not quickly adopted . . . There is no clear definition of the relations between the Government of India and local Governments, nor is there any definite policy regarding it. It depends solely on the personality of the Governor-General and the amount of control exercised over him by the Secretary of State.' Apart from condemning the 'insane craze for centralization', Sir O'Moore also deprecated the concentration of authority on the Governor-General and his Secretariat and the waning authority of the Executive Council

Lord Sydenham, Governor of Bombay, confirmed the above picture in a paper published by him in the *Nineteenth Century and After*.[1] 'The practice of interfering in provincial matters', he wrote, 'has greatly increased in recent years, not of set purpose so much as on account of want of a clear policy.' According to him, to push centralization to such lengths in a country of the size of India was as if a Government operating from Righa Kulm and moving to Rome for the winter tried to rule all Europe! Sydenham also quoted examples of refusal by the central Government to sanction schemes on which officials as well as non-officials were agreed, of interference by Inspectors-General (of whom there were as many as fourteen at the time) in provincial administration, of urgent provincial business being delayed by the central Government's Secretariat, and so forth In his opinion the policy was as futile and foolish as passing a steam-roller over the vast and diversified area of India

An example of the difficulties under which the provincial Governments were then labouring may be given here In 1912 there arose a difference of opinion between the Government of Bombay and the central Government in connexion with the Elementary Education Bill The proposal was very popular in the province and a Resolution on the subject moved by an elected member found great support The Government accepted the Resolution and it was passed unanimously by the Council It was then sent to the Government of India for approval, but both the central Government and the Secretary of State pronounced the attitude of Bombay altogether unconstitutional on the ground that it was incumbent on the provincial Government in the conduct of the business of the Legislative Council to avoid disclosing differences of opinion between them and the central Government. On that occasion, Lord Crewe emphatically declared that 'there is for India one system of administration and one alone and it is only by bearing steadily in mind this fundamental principle that the solidarity of the administration can be kept unimpaired and those disruptive tendencies controlled which must always form the chief risk of decentralization of authority'

This incident showed what a vast difference there was between professions and actual policy, and this happened immediately after

[1] January 1917, pp. 31-50.

the Durbar Dispatch, in which provincial autonomy was adumbrated as the goal for India. It also showed that the absolutist principles on which Indian governance had been based were still as powerful as ever. Education was obviously a matter in which a provincial Government could expect to have a fairly free hand, but even that was to be under rigid central control.

The anomalous situation that emerged was one of unstable equilibrium, and such instability was bound to harm both the rulers and the ruled. An intelligent critic put it thus: 'Up to Lord Curzon's viceroyalty, there was a sturdy determination to do what was right for India, whether India altogether liked it or not. The reforms which followed his régime brought in a power of challenge and obstruction—influence without responsibility. . . We must make up our minds either to rule ourselves or let others rule: there is no half-way house, except of course on the highway of deliberate transition. At present we are doing neither . . If we returned to sheer despotism, we should carry many of the people with us and should secure an ordered calm. But that being impossible, we must definitely show that we are moving from the Eastern to the Western ideal of rule.'[1] For good or evil the representative principle had already been introduced into India, and that was quite naturally regarded by the people as envisaging the grant of more substantial power in future, for representation without real control was bound to work mischief. The only solution was to give some responsibility to the people's representatives, since that alone enables the representative system to produce stable political life in any country.

§4 *The Announcement of 1917*

What the groans of the provincial Governments could not do, the War did. The princes and people of India offered their aid generously to the cause of the Allies, but the recrudescence of revolutionary propaganda and the repression it called forth created an awkward situation. Lord Chelmsford, who came out as Viceroy in 1916, soon arrived at the conclusion that a radical modification of the framework of Indian government should be made without delay, and the Secretary of State (Mr Edwin Montagu) announced this decision in the House of Commons on 20 August, 1917. 'The policy of His Majesty's Government', said he, 'with which the Government of India are in complete accord, is that of the increasing association of Indians in every branch of the administration and the gradual development of self-governing institutions with a view to the progressive realization of responsible government in India as an integral part of the British Empire.' He also announced that 'progress in this policy can only be achieved by successive stages. The British Government and the Government

[1] See op. cit., p. 66.

of India, in whom the responsibility lies for the welfare and advancement of the Indian peoples, must be judges of the time and measure of each advance, and they must be guided by the co-operation received from those upon whom new opportunities of service will thus be conferred and by the extent to which it is found that confidence can be reposed in their sense of responsibility.' This will ever be remembered as one of the most momentous pronouncements in the history of British rule in India, for it meant the demolition of the Mogul groundwork of centralized autocratic government and the laying of the foundations for a new edifice on the enduring principles of widening liberty and progressive autonomy

It should be carefully noted that the announcement of 20 August embodied three principles, namely (1) the increasing association of Indians in every branch of administration, (2) the realization of responsible self-government, and (3) the realization of this goal by successive stages The application of these principles to the definite conditions and needs of the country required a careful investigation into the administrative machinery of India, and in performing this task Mr Montagu travelled throughout India during the cold season of 1917 and studied the whole subject in intimate co-operation with Lord Chelmsford The conclusions arrived at were embodied in the *Report on Indian Constitutional Reforms* (1918) which is a fitting monument to the industry, boldness and sympathetic insight of those two British statesmen Few constitutional documents connected with the British Empire can claim such breadth of view and loftiness of purpose as this 'Joint Report', and the beauty and simplicity of its language and the ordered flow of its arguments make it not merely a constitutional document but a literary masterpiece It is true that the authors cannot claim originality for all the views contained in it, but in such a colossal political enterprise as the one they were engaged on, the detailed application of an idea to a practical problem is perhaps just as important as the original idea itself The Report is a document of permanent value, and will always be regarded as one of the monuments of British political wisdom and of British faith in popular freedom

§5. *Responsible Government by Stages*

'No further development is possible unless we are going to give the people of India some responsibility for their own government'[1] This is the central idea underlying the Reforms Report of 1918 The introduction of responsible self-government was therefore necessary. But there were various difficulties in introducing such a form of government straightway. The authors of the Report fully realized the immensity of the task. Two broad

[1] op. cit., p 117

facts were patent to all . firstly, the pathetic poverty and ignorance of the great bulk of the Indian people, and secondly, the innumerable cleavages of religion, race and caste which constantly threaten the solidarity of Indian nationality. These circumstances, in the opinion of many, made popular government in any form out of the question for India. The authors of the Joint Report admitted that there were great impediments to the introduction of popular government; but they hoped that the new life into which India was to enter would itself be a remedy for many of its worst ills In every way it was inexpedient to delay the initiation of the Indian people in the art of responsible government. Note the boldness and directness of the following words

> Our reason is the faith that is in us We have shown how step by step British policy in India has been steadily directed to a point at which the question of a self-governing India was bound to arise, how impulses, at first faint, have been encouraged by education and opportunity, how the growth quickened nine years ago, and was immeasurably accelerated by the War We measure it not by the crowds at political meetings or the multiplication of newspapers, but by the infallible signs that indicate the growth of character. We believe profoundly that the time has now come when the sheltered existence which we have given India cannot be prolonged without damage to her national life, that we have a richer gift for her people than any that we have yet bestowed on them, that nationhood within the Empire represents something better than anything India has hitherto attained, that the placid, pathetic contentment of the masses is not the soil on which such Indian nationhood will grow, and that in deliberately disturbing it we are working for her highest good.[1]

They were not, however, prepared to recommend the introduction of full responsible self-government at once It must be brought in by stages, and the beginning must be made in the provincial sphere in the first instance Experience would gradually accumulate, and then it would be possible by gradual steps to increase the measure of responsibility both in the provinces and at the Centre The method by which the partial introduction of responsibility in the provincial Governments was to be carried out was dyarchy, which meant the division of government into two halves, one under the Executive Councillors responsible to the Governor and to the British Parliament, and the other under the Ministers responsible to the Legislature and the Indian electorate. Such was to be the transition from absolutism to responsibility.

The province thus became the arena of further political developments in India, 'the domain in which the earlier steps towards the progressive realization of responsible government should be undertaken'. It was decided to give the provincial Governments 'the largest measure of independence, legislative, administrative

[1] op. cit, p. 93.

and financial, of the Government of India which is compatible with the due discharge by the latter of its own responsibilities'.[1] For many reasons, this decision was wise and timely. Firstly, the introduction of responsibility was easier in the provincial sphere than in the central for the obvious reason that while the central Government dealt with defence and foreign policy which were definitely imperial interests of great importance, the provinces dealt with education, agriculture, public health and other social utility services. Secondly, these latter services were precisely those in which the people were principally interested and it was the slackness of progress in this field that roused the suspicion of national leaders. In several provinces the non-official members of the Legislative Councils had pressed for schemes of expansion of the social services, and the opposition of the executive to such schemes had produced discontent among the politically-minded classes in the country. Thirdly, as has been pointed out before, the delegation of financial powers to the provincial Governments had advanced to such a pitch that further progress was only possible if the provincial Governments were free from the interference of Delhi and Whitehall. The leading Indian politicians were strongly of this view. Gokhale's political testament began thus:[2] 'The grant of Provincial Autonomy foreshadowed in the Delhi Dispatch would be a fitting concession to make to the people of India at the close of the War. This will involve the two-fold operation of freeing the provincial Governments on one side from the greater part of the control which is at present exercised over them by the Government of India and the Secretary of State in connexion with the internal administration of the country and substituting on the other, in place of the control so removed, the control of the representatives of tax-payers through Provincial Legislative Councils.' The decision was thus a valued concession to Indian opinion.

The decision to make the provinces the domain for the introduction of responsibility prepared the way for the foundation of a federal system in India. Even before 1919 the provincial system of India had suggested federal analogies to outsiders, and the financial relations between the central Government and the Provinces, at any rate, had developed into an advanced stage of decentralization. Mr Montagu and Lord Chelmsford were convinced that a federal constitution was the only suitable goal for India, and they stated their view in unmistakable language. 'Granted the announcement of August 20, we cannot at the present time envisage its complete fulfilment in any form other than that of a congeries of self-governing Indian provinces associated for certain purposes under a responsible Government of India; with possibly what are now the Native States of India finally embodied in the same whole, in some relation which we

[1] op. cit., p. 124. [2] Keith, *Speeches and Documents*, II, p. 111.

will not now attempt to define '[1] It was the introduction of responsible government in the provinces that formed the basis of this forecast The adoption of the goal of provincial autonomy meant the separation of the functions and finances of the central Government and the provinces.

It is not proposed in this connexion to sketch the provisions of the Government of India Act, 1919 We are here concerned chiefly with the division of functions and the separation of finances between the centre and the provinces The first topic will be dealt with presently and the second forms the subject of the next chapter

§6 *Division of Functions*

A demarcation of functions between the central Government and the provinces had already been recognized in practice The Government of India jealously kept in its hands such matters as defence and foreign relations, posts and telegraphs, currency and public debt, but in matters like education, medical aid, agriculture and veterinary service, the provinces had great freedom of action although the ultimate control still rested with the central Government It was only by delegation that the provincial Governments came to obtain such freedom, but the extent of the delegation was already rather wide and therefore the powers of the provinces could be extended without much difficulty But the extent of the delegation already effected was not the criterion for demarcating the fields of the two Governments The fundamental consideration was ' whether the interests of India as a whole (or at all events interests larger than those of one province) or on the other hand the interests of the provinces essentially predominate ' Where broad national interests were involved, the subject should be treated as central, and where provincial influence predominated, the provincial Governments should be given the authority.

The subjects classed as central were of at least three categories (1) Matters which it would not be expedient to leave to provincial administration, mainly on account of the responsibility of the Government of India to the Secretary of State in regard to them e g defence, external relations, relations with Indian states, railways, aircraft and inland waterways, shipping and navigation, major ports, posts and telegraphs, currency and coinage, public debt, savings banks, territorial changes, etc (2) Matters which had to be kept under central control with a view mainly to securing uniformity and avoiding the inconvenience of divergence between province and province e g civil law, commerce, banking and insurance, trading companies, inventions and designs, copyright, emigration and immigration, criminal law and procedure, survey of India, meteorology, census and statistics, regulation of

[1] op. cit., p 78, also p. 220.

ceremonials and titles, etc. (3) Certain matters in regard to which administration by the central Government was essential in the interests of economy as well as efficiency : e.g. central institutions for research, archæology, geological, botanical and zoological surveys, etc.

The provincial list comprised subjects of local concern dealing mostly with economic and social development. The principal heads were the following . local self-government, medical administration, public health and sanitation, education (excluding sectarian universities and Chief's Colleges), public works, famine relief, agriculture, civil veterinary department, fisheries, co-operative societies, forests, judicial administration (excluding High Courts and Chief Courts), registration, religious and charitable endowments, industrial development, police and jails, minor ports and inland waterways.

Certain subjects were allocated to the provincial Governments, although some parts of them were detached and made subject to central legislation For example, although education was primarily a provincial subject, the Universities of Benares and Aligarh were made subject to central legislation and, for a period of five years, the Calcutta University along with the organization of secondary education in Bengal was excluded from provincial control, with a view to giving effect to the recommendations of the Calcutta University Commission.

Besides administering the subjects allotted to them, the provincial Governments were also expected to discharge what are called ' agency functions ' in connexion with the local administration of certain central subjects. When later the Government of India set up its own establishments (e.g the Income-tax Department), the agency functions diminished in number and scope. The provincial Governments, however, continued to be employed in connexion with the collection of statistics, relations with certain Indian states and a few other similar matters

§7 *Reserved and Transferred Subjects*

As dyarchy meant the division of government into a ' reserved ' half and a ' transferred ' half, a further division of subjects was necessary within the provincial sphere The advice of the Joint Report was ' to include in the transferred list those departments which afford most opportunity for local knowledge and social service, those in which Indians have shown themselves to be keenly interested, those in which mistakes which may occur, though serious, would not be irremediable, and those which stand most in need of development '. It was not expedient therefore to transfer immediately departments which were primarily concerned with the maintenance of law and order and those (like land revenue and tenant rights) which vitally affect the masses The inadequate representation of the masses was the justification for excluding the latter. The term ' law and order ' includes police, prisons and

the subsidiary magistracy. The subjects transferred were social services and departments the control of which was essential for giving political training to the Indian electorate. The following was the list of subjects thus transferred :

1. Local self-government—i e. all matters relating to the constitution and powers of municipal corporations, improvement trusts, district boards, union boards, of health and other local bodies.
2. Medical administration, including hospitals, dispensaries and asylums, and medical education.
3. Public health and sanitation, and vital statistics.
4. Pilgrimages within British India.
5. Education (with many reservations).
6. Public works, including provincial buildings, and ancient monuments; roads, bridges, ferries and tunnels, and other communications not of military importance; municipal tramways; and light feeder railways.[1]
7. Agriculture, including agricultural research
8. Civil veterinary department
9. Fisheries.[1]
10. Co-operative societies.
11. Forests (transferred only in Bombay).
12. Excise, i.e. liquor and intoxicating drugs (excluding the production of opium).
13. Registration of deeds and documents
14. Registration of births, deaths and marriages
15. Religious and charitable endowments.
16. Industrial development, including research.
17. Stores and stationery for the transferred departments
18. Adulteration of foodstuffs
19. Weights and measures.
20. Libraries (excluding the Imperial Library, the three museums and the Zoological Gardens at Calcutta).

[1] In Assam public works and fisheries were not transferred.

CHAPTER XXV

DIVISION OF FINANCES BETWEEN THE CENTRE AND THE PROVINCES

THE financial system adopted in India in 1919 was a half-way house between unitary and federal. As regards the allocation of revenues, the system was completely federal, and perhaps even more federal than in many Federations, seeing that a clean separation of revenues was made between the central Government and the provinces. The aim was to give the provinces their own independent resources, and this was pushed to such an extent that it was considered unconstitutional even to make grants to the provinces. Nevertheless, in regard to audit and accounts, borrowing and allied matters the provincial Governments continued to depend largely on the central Government. Thus the position became in some ways anomalous, but this was perhaps inevitable in the transition from a highly centralized to a decentralized system of government.

§1. *Division of Finances*

The fundamental principle of the Reforms of 1919 was that the provinces should be given 'the largest measure of independence, legislative, administrative, and financial, of the Government of India which is compatible with the due discharge by the latter of its own responsibilities'. In the system then existing, the Government of India was responsible for provincial solvency, and since the proceeds of the principal revenues were divided between the central Government and the provinces, the financial administration of the provinces came under the detailed control of the central Government. This state of things was inconsistent with the underlying idea of the Reforms, and a radical change had to be made. Further, as the Joint Report points out, an arrangement which worked successfully as between two official Governments would not necessarily work well as between a popular and an official Government.

The solution suggested by the Joint Report was the entire separation of revenues in order to make the provinces financially independent of the central Government. It was proposed, first to estimate the revenue needed for central expenses, and after providing for them to hand over all the balance to the provincial Governments. The old system of divided heads was to be given up, but the items which were already wholly central or provincial were to stand as before. The principal divided heads were

land-revenue, stamps, excise, income-tax and irrigation. Of these, excise was already a provincial head in Bombay, Bengal and Assam; and this was henceforth to be provincialized in all the eight provinces. The case of stamps was more difficult to settle. The Joint Report divided this head into 'general' and 'judicial', and of these the latter was to be provincialized and the former was to remain central, in the interests of uniformity Ultimately both the sub-heads were provincialized. but the central Government continued to have the power to legislate in regard to them. Income-tax was made a central head, owing to the obvious inconvenience that might arise if it varied between province and province, and owing to the uncertainty about its incidence Further, in most federal countries income-tax is largely, if not solely, a federal head of revenue.

There remained land-revenue and irrigation receipts to be considered The question of land-revenue was the most difficult to settle. On the face of it, it ought to belong to the provinces, seeing that the general administration is so intimately connected with the assessment and collection of land-revenue, moreover the systems of land tenure and land-revenue vary from province to province. But there were obvious difficulties in provincializing it. It would make vast inroads into the resources of the Government of India, and other means would have to be found for meeting the deficit. In spite of these difficulties, land-revenue, along with irrigation receipts, was made a provincial head. Provision had therefore to be made by the provinces to meet the expenditure on famine relief, and for protective irrigation works. It was, of course, legitimate that such burdens should accompany their accession to financial freedom.

Thus no divided heads remained; and the whole revenue of India was partitioned between the central Government and the provinces To the central Government were allotted customs duties, income-tax, salt and opium, and contributions from railways, posts and telegraphs; while land-revenue, liquor excise, irrigation receipts, forests, stamps (both general and judicial) and registration fees became provincial sources of revenue.

Although some revenues were thus definitely allocated to the provincial Governments, they had still to be received in the name of the Crown (Section 20); and it was only the Secretary of State in Council who could sue or be sued concerning their collection (Section 32). A relaxation of those restrictions was not found possible at that stage.

§2. *Provincial Contributions*

It was clear that such a division of revenues between the central Government and the provinces would unbalance the budget of the former. In order to meet the deficit, the Joint Report suggested a system of contributions from each province assessed on

the basis of their normal surplus, i.e. the difference between the estimated gross revenue under the new scheme and the estimated normal expenditure. The deficit of the central Government was estimated at Rs 13·63 crores, and this was to be made good by drawing on the aggregate surplus of Rs. 15·64 crores accruing to the provinces under the new arrangement. Accordingly, Madras and the United Provinces which acquired large additional revenues would contribute Rs 4·28 crores and Rs 3·74 crores respectively, while Bengal and Bombay would contribute only Rs 38 lakhs and Rs. 69 lakhs respectively.

This proposal was strongly opposed by several provincial Governments, and in order to ease the difficult situation thus created, a special Committee was appointed with Lord Meston as chairman to inquire into the whole question of the financial relations between the central Government and the provinces.[1] The Committee came to the conclusion that the estimated provincial surpluses would not be a fair basis of contributions, since that would penalize those provinces which were economical during the War, and recommended that the contributions should be assessed on the increased spending power of the provinces, i e. the additional resources which a province would acquire on the separation of the sources of revenue It was held that the normal revenue of the provinces was ascertainable with greater accuracy than normal expenditure The Committee claimed for their proposal 'the merit of proceeding on the lines of minimum disturbance of the financial position in each province', and 'of inaugurating the new Councils without the necessity of resort to fresh taxation'. The increase of revenues had come to the provinces 'as a windfall or a bye-product of the constitutional change' Thus some provinces gained considerably in spending power, but as this was effected by means of a corresponding reduction of central finances, it was necessary that the central Government should claim relief from the provinces in proportion to the gain accruing to them by the change. The provinces that gained most had naturally to meet the burden of the contributions, but this was to be temporary. The following is the list of the contributions recommended by the Meston Committee and adopted by Parliament [2]

[1] The Committee consisted of Lord Meston, Mr Charles Roberts, M P. and Mr Hilton Young

[2] Committee on Financial Relations, C. 724 of 1920, p. 8; also Devolution Rules, section 17.

Province	Increased spending power	Contributions	Increased spending power left
	Rs. lakhs	Rs lakhs	Rs lakhs
Madras . ..	5,76	3,48	2,28
Bombay	93	56	37
Bengal . .	1,04	63	41
United Provinces	3,97	2,40	1,57
Punjab . . .	2,89	1,75	1,14
Burma	2,46	64	1,82
Bihar and Orissa .	51	Nil	51
Central Provinces .	52	22	30
Assam	42	15	27
Total	18,50	9,83	8,67

Evidently by this arrangement the provinces which hitherto bore the brunt of expenditure were still left in the same position Madras and the United Provinces were to pay between them 60 per cent. of the whole contributions Madras alone had to pay 35½ per cent Once more the traditional complaint was heard from these provinces This time it became even louder, because the new list of contributions brought into prominence what had hitherto been disguised under the cloak of the divided heads. In the new system each province came to see more clearly what its relative contribution had been to the central purse It was not possible to mask the disparity any longer. Thus Bombay and Bengal, the two wealthiest provinces, were again favoured, as only 6½ and 5½ per cent. respectively of the total amount of the contributions was payable by them. Even the small contribution originally imposed on Bengal was remitted until 1925

No doubt all admitted that this inequality was due to historical causes which it was not easy to remove Chief among these was the 'permanent settlement' of the land revenue which prevented certain provinces from yielding the same proportion of the agricultural revenue to the public exchequer as others in which the land revenue was periodically revised Further, different provinces had different standards of expenditure, and some of the progressive provinces had been prospering upon the frugality of their neighbours. Such habits once formed are not easily eradicated.

The Meston Committee, however, were not content merely with fixing the initial contributions They realized the injustice of the apportionment and devised means for gradually remedying it. They sought to find an ideal basis of contributions to serve for future occasions The guiding principle in the matter, they said, should be the *capacity to contribute*. This was interpreted to mean 'the taxable capacity, which is the sum of the incomes of its taxpayers, or the average income of its taxpayers, multiplied by their number'.[1] They held that this would be the most

[1] Parliamentary Paper (1920), C. 724, p. 9.

scientific basis, but the statistical information needed to arrive at accurate conclusions on this basis was not available.

This question had troubled the minds of generations of Indian administrators, at least from 1860. The Government of Madras always insisted on the need for some equitable formula to determine the revenue burdens to be borne by each province. As already seen, the Royal Commission of 1908 considered the question, in the light of the German *matricular Beiträge* and other systems, and found it difficult to devise any proper formula for the division of central expenditure between the provinces. Objections could be found to all the possible proposals [1] A subsidy on a *per capita* basis would be unfair to the relatively poor and undeveloped provinces and would cause hardship to the most thickly populated ones A contribution proportionate to gross provincial revenues would leave several provinces with large deficits owing to the historical causes mentioned above A levy in proportion to expenditure would encourage thrift and penalize extravagance; but here again, the result would be deficits in some provinces. If the levy was made in inverse proportion to expenditure, i e as a proportion of the annual surplus, it would penalize thrift. Each of these standards has its merits and defects, but it would be harmful to adopt any one of them by itself. Again many of these items differ from year to year, and the assessments would have to be made annually We are compelled therefore to fall back upon 'taxable capacity' as the most suitable criterion. Nevertheless the various other criteria dealt with above may be utilized in arriving at the approximate taxable capacity, or in verifying the results of that calculation

The Meston Committee, after an elaborate inquiry into the conditions of the various provinces, their relative taxable capacities in the light of their agricultural and industrial wealth, their indirect contributions to the central exchequer, and other relevant facts of their economic position, including particularly their liability to famine, recommended a fixed ratio of contributions, to be put into practice after an interval of time sufficient to enable the provinces to adjust their budgets to the new conditions After slight modifications Parliament accepted the suggestion, and the following table of standard contributions was approved ·

	Percentage Contribution		*Percentage Contribution*
Madras ..	... 17	Punjab	.. 9
Bombay .	... 13	Burma .	. 6½
Bengal .	... 19	Bihar and Orissa	. 10
United Provinces	.. 18	Central Provinces	. 5
		Assam ..	. 2½
			100

[1] For an analysis of the problem, see also the Madras Government's letter in Parliamentary Paper (1920), C. 974, pp. 23-35.

It was also decided that the contributions should be abolished, when the financial position of the central Government improved.

The allotment of income-tax to the central Government raised a loud protest from certain provinces. The Government of Bombay put forward the suggestion that the tax might remain a divided head as before. This question was also considered by the Meston Committee, and it supported the conclusion of the Montagu-Chelmsford Report, but a doubt was expressed whether it would be possible permanently to prevent the provincial Governments from levying any form of direct taxation upon the industrial and commercial earnings of the people. The Joint Select Committee of Parliament was also opposed to a division of income-tax, but sought to alleviate the discontent among the provinces, by accepting the suggestion proceeding from the India Council 'that there should be granted to all provinces some share in the growth of revenues from taxation on income so far as that growth is attributable to an increase in the amount of income assessed'. This was provided for in Devolution Rule 15 'Whenever the assessed income of any year subsequent to the year 1920-1 exceeds in any Governor's province or in the province of Burma the assessed income of the year 1920-1, there should be allotted to the local Government of the province an amount calculated at the rate of three pies in each rupee of the amount of such excess.'[1] This did not satisfy the aggrieved provinces, but was useful as a ground for urging a further step in the same direction It was to be a long time before that further step was taken

Such was the division of finances between the central Government and the provinces in 1919 It was proposed at one stage to proceed further and to make a division between the funds of the 'reserved' and the 'transferred' halves of each provincial Government The Montagu-Chelmsford Report preferred a 'joint purse' for the two sections, but the Government of India feared that this would produce serious friction between the two halves of government and suggested the method of 'separate purses', and this proposal was adopted in the draft bill. But the Joint Select Committee preferred the joint purse and recommended that the Governor should allocate a definite proportion of revenue to the two sides, in the event of disagreement between them. This proposal was finally embodied in the Act of 1919.

§3 *Relaration of Central Control*

The allocation of independent financial resources to the provincial Governments was not sufficient to free them from the rigorous central control which had been causing friction. It was also necessary to relax the control exerted by the central

[1] Devolution Rules 14 (e) and 15 (as amended by correction slip No. 1, dated 13 October 1921)

Government (and the Secretary of State) over their expenditure and to enhance the provincial powers of taxation and borrowing.

So long as the whole of the Indian revenues was hypothecated to the Government of India, the provincial powers of taxation were bound to be restricted, and under various executive orders the imposition of a tax by a provincial Government required the previous sanction of the Government of India Naturally, the power to tax was seldom exercised by the provincial Governments. It was necessary under the new system to give freedom to the provinces to impose taxation in order to meet their growing needs, but there was the possibility that any such power might clash with the similar power of the central Government.[1] A new provincial tax might unduly affect the central heads of revenue, or might be one contemplated by the central Government itself. In such cases, power was lodged with the Government of India to regulate the provincial powers of taxation A schedule of taxes to be left entirely to the provinces was prepared, and in that field the provinces were authorized to range at pleasure [2] But the residuary power was left with the central Government. The schedule included taxes on non-agricultural land, on successions, on betting and gambling, on advertisements and amusements and special luxuries The provinces were authorized also to tax for local purposes (or allow local authorities to impose taxes for local purposes in their areas) Such local taxes were to be in the nature of tolls, taxes on buildings, vehicles, boats, animals, domestic servants, trade and professions, markets, and so forth.

The provincial Governments were also empowered by the Act of 1919 to borrow money either in India or abroad on the security of their revenues But there were various difficulties in leaving these Governments unfettered in the exercise of this power Rules[3] were therefore made in accordance with the provisions of Section 30, 1 (a) of the Act (1919) The sanction of the Governor-General in Council was made necessary for raising a loan in India; for loans raised in England a similar sanction was needed from the Secretary of State Moreover, the raising of money was to be done on behalf of, and in the name of, the Secretary of State. It was also definitely laid down that such loans should be raised only for expenditure 'on any work or permanent asset of a material character in connexion with a project of lasting public utility'. Even then loans could be raised only when such expenditure was 'so large that it cannot reasonably be met from current revenues' Loans could be raised also for financing the Provincial Loan Account and for famine relief. These powers were, however, still circumscribed by numerous restrictions.

[1] See *Joint Report*, p 136; also Parliamentary Paper (1919), C 103, p. 92.
[2] Rules under the Government of India Act, p 266
[3] ibid., p. 263 (Local Government Borrowing Rules).

The annoying budget restrictions were also greatly relaxed. Hitherto, provincial budgets had to be passed by the Indian Finance Department and appropriation results also had to be placed before it. All this was wiped out in 1920, when the provincial budget was entirely separated from the budget of the central Government Thus from 1921 the provincial transactions are not included in the central budget In order to help the provincial Governments to manage their finances, a Finance Department was organized in every province. The budget was to be voted item by item in the Legislative Council The appropriation reports were no longer to be dealt with by the Government of India, but were to be discussed by the Public Accounts Committee of the local Legislative Council The work of auditing, however, was still to be performed by the Auditor-General in India for the provinces as well as for the Government of India.

At the same time, other restrictions were also removed. The old rules regarding spending powers were found inconsistent with the new order of partial autonomy, and accordingly they were relaxed The recommendations of the Government of India dispatch on this question were largely modified by the Joint Select Committee The net result of all the changes may be summarized as follows (1) the control over expenditure in respect of transferred subjects passed from the Secretary of State and the central Government to the provincial Legislative Councils (except in regard to the salaries etc of all-India Services) Every proposal for appropriation of funds in a province, however, still required the recommendation of the Governor, and to this extent the Secretary of State was not completely divested of his responsibility for the transferred subjects

(2) In respect of the reserved subjects, the powers of expenditure of the provincial Governments were defined in a Resolution of the Secretary of State in Council, called the Provincial Audit Resolution. The restrictions were similar to those applicable to the transferred subjects, but the Secretary of State retained control in respect of capital expenditure on certain schemes and extensive revisions of establishment involving heavy expenditure His sanction was still required for proposals affecting the pay and allowances of members of the all-India Services, for the expenditure on salaries etc of Governors, for any revision of establishments involving an annual expenditure exceeding a certain limit, and for capital expenditure on public works estimated to cost more than Rs 50 lakhs 'In practice, this control is exercised through the Government of India, which, in forwarding the proposals to the Secretary of State, offers its criticisms and suggestions.'[1] Thus the control over provincial expenditure formerly exercised by the Government of India was removed almost entirely.

[1] *Simon Commission Report*, I, p 374.

The Secretary of State's control over the financial administration of the Government of India was not relaxed in 1919, and he continued to exercise a strict control. The budget proposals, especially those relating to taxation, had to be submitted to him and his orders obtained before the budget was presented to the Legislature. In matters relating to currency and exchange policy, borrowings in England and the management of the two currency reserves, the Secretary of State's control remained supreme.

Some relaxation, however, occurred in a limited field. Large powers of expenditure were delegated to the Government of India, but the previous sanction of the Secretary of State was still necessary in many cases His control over taxation was also circumscribed by the Fiscal Autonomy Convention This Convention was the outcome of certain discussions in the Joint Select Committee. The following is an extract from that Committee's report: 'Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand Canada and South Africa In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party' This recommendation was approved by Parliament Thus the Government of India became free to consider India's interests first, and there followed as a result the appointment of the Fiscal Commission (1922) and the constitution of the Tariff Board (1924).

Since such a substantial devolution of power was made by the Secretary of State to the Governments in India by means of statutory rules and executive orders, it became necessary to have in India an agency independent of the Government of India and responsible to the Secretary of State for seeing that the Governments did not act in excess of the powers conferred on them This function devolved on the Auditor-General, an officer appointed directly by the Secretary of State in Council and holding office during His Majesty's pleasure He was also the final audit authority in India and it was his reports on the appropriation accounts that the Public Accounts Committees considered. He was also statutorily responsible for the compilation of the accounts which the Secretary of State was required to lay before both Houses of Parliament every year. Thus the Auditor-General was responsible not only for audit, but also for the preparation of the accounts to be audited.

§4. *Financial Control in India*

It may be useful at this juncture to give some account of the system of financial control set up in India with the partial relaxation of the Secretary of State's control over the Governments in India Since a definite beginning was made in 1919 towards the establishment of responsible government in India, it became necessary to adopt a system of financial control suited to responsible government In Great Britain the financial control of Parliament over finance is secured in two ways · (1) by the annual voting of 'supplies' by means of an Appropriation Act specifying the purposes of expenditure and the amount voted for each purpose, and (2) by providing funds through an annual Finance Act authorizing the collection of certain taxes to cover the supplies granted By these two processes Parliament controls the authority of the executive in raising revenue and in spending it

In a country like India, where parliamentary government was only just beginning to function, such a thorough system of financial control could not be introduced all at once However, the Act of 1919 introduced a partially responsible system of government into the provinces of India and enlarged the powers of the Central Legislature in regard to financial administration A certain amount of popular control over finance was thus introduced into both the central and the provincial Governments

We will take the central Government first Under Section 67 of the Government of India Act (1919) the raising and spending of revenues were made ordinarily subject to the vote of the two Chambers, but the following heads of expenditure were made non-votable by the Legislature and were not subject to discussion in the House, unless the Governor-General otherwise directed

1 Interest and sinking fund charges on loans;
2. Expenditure of which the amount is prescribed by or under any law;
3 Salaries and pensions of persons appointed by or with the approval of His Majesty or the Secretary of State in Council;
4 Salaries of Chief Commissioners and Judicial Commissioners, and
5 Expenditure classified by the order of the Governor-General in Council as (*a*) ecclesiastical, (*b*) political, and (*c*) defence.

The Governor-General's discretionary power to throw open non-votable heads to discussion has been liberally used, and in practice the Assembly has freely discussed them. Other means have also been utilized to widen the freedom of the Assembly. For example, although expenditure on defence is classed as

non-votable, military policy and expenditure have been freely discussed by the Assembly by moving a 'cut' in the expenditure proposed to be voted for the secretariat establishment of the Army (now Defence) Department.

The financial control exercised may be classified under four heads: (1) the Standing Finance Committee, (2) voting of the budget grants by the Assembly, (3) the Finance Bill, and (4) the Public Accounts Committee

1. The Standing Finance Committee of the Assembly corresponds to the Estimates Committee in the British system and its principal function is to scrutinize the proposals for fresh expenditure before they are placed before the Assembly This Committee has a majority of elected members. It is a purely advisory body and has no statutory authority, but it has given useful advice to the Finance Department in regard to drawing up the budget estimates and effecting economies

2. When the estimates of revenue and expenditure receive the approval of the Governor-General, they are incorporated in the Budget and are placed before the Assembly in the last week of February, when the Finance Member makes his budget speech. Then follows a general discussion which is usually confined to a few broad topics such as the reduction of military expenditure, Indianization of the Services, planned economy, etc The next stage is the voting of demands for grants. A series of motions are placed before the Legislature and a number of days are allotted for discussing them This gives an opportunity to members to discuss the detailed working of the Departments The Council of State can also discuss the budget in general, but demands for grants are not placed before it The Governor-General has power to restore a 'cut' and thus to sanction expenditure disallowed by the Legislature, and this course has been adopted by the Governor-General whenever it was thought essential for the due discharge of his responsibilities. Clearly this is a reserve power and is expected to be exercised only when the safety or tranquility of British India requires it.

3. An annual Finance Bill is introduced in the Legislative Assembly along with the budget. But this is not discussed till the estimates have been passed Such an annual Finance Bill was not called for by the Government of India Act, 1919, but it was made necessary by a non-official amendment to the Taxation Bill of 1921 requiring all the central taxes, except the customs duties, to be placed before the Assembly every year for its vote. The object of this amendment was to establish a convention similar to that which obtains in the House of Commons. But the Indian practice has gone much further, since in England only the income-tax is voted annually. It was in order that an annual meeting of Parliament should be indispensable that some taxes were made annually votable in England. But there was no such necessity in

India since the Government of India Act provided for meetings of the Legislature every year.

4. The Public Accounts Committee has nearly the same functions as the corresponding committee of the House of Commons. The principal difference is that the Chairman is the Finance Member and not, as in England, a member of the Opposition. Eight members are elected by the Assembly and three are nominated The Committee scrutinizes the Annual Report of the Auditor-General on audit and appropriation, with a view to seeing whether the money voted by the Legislature has been spent within the scope of the demand It can point out irregularities or improprieties The scrutiny thus carried out by the Committee is generally recognized as being 'industrious and efficient' and it has helped the Assembly to control the public expenditure effectively.

So far we have described the system of financial control in connexion with the central Government In the case of the provincial Governments no real control by the Legislatures was possible till 1919 With the clean separation of revenues between the central Government and the provinces, it became possible for the provincial Legislatures to obtain some control over finances. The procedure adopted for the provincial Councils was nearly the same as for the central Legislature. The non-votable items were fewer. They were: (1) contributions to the central Government, (2) interest and sinking fund charges on loans, (3) expenditure of which the amount was prescribed by or under any law, and (4) salaries and pensions of certain high officials, including the judges of the High Court In the case of 'transferred' subjects the vote of the Council was on the whole effective, but any 'cuts' in expenditure on 'reserved' subjects could be restored by the Governor in case of necessity. The Standing Finance Committee of a provincial Council exercised a much larger influence than the corresponding committee of the Central Legislative Assembly. It was not merely an advisory body In some provinces it was consulted on the imposition of additional taxation and it largely determined the distribution of surplus revenue between the 'transferred' and 'reserved' halves of the Government. The budget procedure was the same as in the Central Assembly, except that there was no annual Finance Bill. Taxation in the provinces was imposed under permanent statutes or executive orders having the force of law, and not fixed from year to year. The Public Accounts Committees of the provinces functioned on the same lines as in the central Government and did useful work.

CHAPTER XXVI

REORGANIZATION OF THE FINANCIAL SYSTEM, 1920-8

§1. *The New Financial System on Trial*

THE introduction of financial reforms was accompanied by many unfortunate circumstances In March 1920, when introducing the budget, Sir Malcolm Hailey said that there were only two clouds on India's financial horizon, namely, the legacy of War finance which pointed to the need for severe economy, and the continuance of high prices which necessitated a wholesale revision of the pay of all state servants, thus imposing larger burdens on the tax-payer. But public revenues were growing and prosperity was expected to continue. These expectations, however, were soon falsified. 'The trade boom passed away with uncanny rapidity, leaving behind it a trough of depression.'[1] Imports continued to pour in, but exports showed a rapid fall owing to the collapse of purchasing power in Europe When exports fell, India's purchasing power was affected and the imported goods lay unsold in the warehouses. In 1919 there was a merchandise balance of £127 millions in India's favour, but in the year 1920 imports exceeded exports by £21 millions The failure of the monsoon of 1920 and the heavy expenditure on the frontier expeditions added greatly to these difficulties. The defence budget, which stood at Rs. 30 crores in 1914, had swollen to Rs 70 crores by 1920-1 The results were . (1) unbalanced budgets, (2) an embarrassingly large floating debt, (3) unstable exchange, and (4) serious currency difficulties On the recommendation of the Babington Smith Committee of 1919 the rupee was stabilized at two shillings gold. But the circumstances that followed were most unfavourable to the maintenance of such a high exchange value and the exchange rate fell from 2*s*. 11*d*. in February 1920 to 1*s*. 5¾*d*. at the end of the year This tremendous fall of the rupee greatly increased the burden of remittances to London The Government tried to influence the exchange by the sale of Reverse Councils, but the attempt was bound to fail owing to the fall of exports.

All this told heavily on the central budget. The Government had accumulated a deficit of Rs 30 crores in the years 1918-19 and 1919-20. The year 1920-1 closed with a deficit of Rs. 26 crores and the revised estimate for 1921-2 disclosed a deficit of Rs. 34 crores. Thus the accumulated deficit of four years was Rs. 90 crores. These deficits were met partly by the issue of unbacked

[1] *India in 1920*, p. 78.

currency notes, and this had undesirable consequences. Moreover, the construction of New Delhi added to the Government's deadweight debt. The annual debt charge thus became heavy, and there followed 'a deterioration in India's credit, an increase in the cost of borrowing and a depletion of the resources available for desirable capital development'.[1] Sir Basil Blackett characterized this as a 'rake's progress'.[2]

Nor were the provincial finances in a more prosperous condition. Most of the provincial Governments had deficit budgets and their finances were severely strained They blamed the Meston Settlement; Bengal and Madras were particularly vociferous in their demands for a revised settlement The difficulties of Bengal were considered exceptional and its contributions were therefore remitted by the Government of India The Madras case did not make any great impression, and Madras continued to make large contributions to the central revenue The serious financial situation confronting the central Government made further concessions impossible at the moment.

§2 *How Financial Equilibrium was Restored*

The Government of India handled the situation by retrenchment and by imposing fresh taxation, mostly under customs duties. 'When additional revenues are required', said Sir Malcolm Hailey in the Assembly, 'the first head to which one's thought naturally turns is customs'.[3] In 1921-2 the general *ad valorem* duty was raised from 7½ per cent. to 11 per cent. and a special duty of 20 per cent. was imposed on motor cars, silks, umbrellas, watches, etc. The duty on sugar was raised from 10 per cent. to 15 per cent. Cotton goods also came under the 11 per cent *ad valorem* duty, but the Finance Member expressly stated that the enhancement was made solely on account of financial necessity and not as a departure in fiscal policy.[4] It was expected that these additional taxes would balance the budget, but owing to the deepening of the trade depression and the failure of the monsoon, a heavy deficit of Rs. 28 crores was disclosed at the end of the year Further additions to taxation had therefore to be made in 1922. The general import duty was raised from 11 per cent. to 15 per cent. This was originally intended to apply to the import of cotton goods, but as the proposal to raise the countervailing excise from 3½ per cent. to 7½ per cent was not approved by the Legislative Assembly, cotton goods were excluded from the tariff enhancement Duties on certain luxury goods were raised from 20 per cent. to 30 per cent. and increases were also made in the duties on sugar, kerosene, matches and other articles. The

[1] Budget Statement (1923-4), p 6
[2] ibid
[3] Budget Statement (1922-3), p. 11.
[4] Budget Statement (1921-2), p. 16.

duties on machinery, iron and steel and railway material were raised from 2½ per cent. to 10 per cent.

At the same time the income-tax was also increased. In 1921 the rate of super-tax on incomes between Rs. 3 lakhs and Rs. 3½ lakhs was raised to 3½ annas per rupee and those over Rs. 3½ lakhs were charged at 4 annas. In the following year, the rate on incomes between Rs. 30,000 and Rs 40,000 was raised from 14 pies to 15 pies and that on incomes above Rs. 40,000 from 16 pies to 18 pies. The Government originally intended to abandon the super-tax after the War, but the financial situation made it impossible to do so. Railway rates and fares were also increased in 1922. In spite of all these measures the year 1922-3 closed with a deficit of Rs. 9 crores.

The need for a drastic retrenchment of expenditure was felt at an early stage and in May 1922 the Indian Retrenchment Committee was appointed with Lord Inchcape as chairman After a searching scrutiny of the expenditure of the central Government, the Committee, in March 1923, recommended reductions amounting to Rs 19¼ crores in the central expenditure. The Committee considered that the defence budget was too heavy and recommended that it should be brought down to Rs. 57¾ crores in 1923-4 and that it should be eventually stabilized at Rs. 50 crores. Most of these proposals were given effect to in the budget for 1923-4 Notwithstanding these drastic economies and all-round increases in taxation the budget estimates for 1923-4 revealed a deficit. The Government then had recourse to doubling the duty on salt. The Assembly refused to consent to this measure and the Finance Bill had to be certified by the Viceroy. The result was that the anticipated deficit for 1923-4 was converted into a surplus of Rs. 2·4 crores.

Thus the tide turned. From 1923 economic conditions in India showed a great improvement. The monsoons were good, exports increased and the balance of trade in favour of India reached higher figures than ever before. Large quantities of gold bullion flowed into the country. When trade revived the revenues also looked up, and the budget position of the Government of India became strong It was therefore possible to reduce a part of the increases made in taxation in the years 1921 to 1923 In 1924-5 the salt duty was reduced to the old level of Rs. 1-4 per maund, and the export duty on raw hides and skins was reduced from 15 per cent. to 5 per cent. In November 1925 an Ordinance was issued suspending the cotton excise duty which had caused a good deal of political trouble, and it was finally abolished in April 1926. With a view to encouraging motor transport in India, the duty on motor cars was reduced from 30 per cent. to 20 per cent. and that on tyres from 30 per cent. to 15 per cent. in 1927-8. In the same year the export duty on tea and the import duty on machinery were also abolished.

§3. *Remodelling of the Financial System*

After easing the immediate difficulties, Sir Basil Blackett set to work on various lines of financial reconstruction. The principal measures taken were connected with railway finance, public debt and currency reform. The quick recovery of India from the depression of 1920-2 was largely due to these timely measures.

The financial position of the Indian Railways needed a thorough overhauling. Since 1900, a steady increase had been taking place in the contribution of the Railways to the general revenues of the country. During the War the income of the Railways expanded greatly and the Meston Committee made its financial arrangements on the assumption that the contribution from the Railways would be not less than Rs. 10¾ crores, but these expectations were soon belied. There was a sharp fall in Railway earnings in 1920-1, and this continued for some time in spite of the increase in rates and fares. Thus the contribution to general revenues fell from Rs. 9 crores in 1921-2 to just over Rs. 1 crore in the two following years. Thus the financial management of the Railways began to cause the Government grave anxiety.

The Acworth Committee (1920-1) stated that the allotments for railway expenditure were determined from year to year with little regard to the actual requirements of the Railways and that, if the Railways were to be run on strictly business lines, a complete separation of railway finance from the general finances was really necessary. In the opinion of the Retrenchment Committee, both capital expenditure and working expenses were too high. The Railways might at any time become a heavy liability on the national resources The earnings were unsteady and varied according to the nature of the season, so that the inclusion of those earnings in the general accounts made the central budget a veritable 'gamble in rain' The result was, as Blackett put it, 'an alternation between raids by the railways on the tax-payer and raids by the tax-payer on the railways'[1] It was therefore decided, in the interests both of the Railways and of the Government, to separate railway finance from the general budget. The matter was fully considered by the Assembly in September 1924, and it was decided that the railway finances should be separated from the general finances of the country and that the general revenues should receive a definite annual contribution from the Railways, which should be the first charge on their net receipts. This contribution was settled on the basis of 1 per cent. of the capital at charge in the penultimate year, plus one-fifth of the surplus profits in that year. Should the Railways fail to pay the contribution in any year, the deficiency was to be made good in subsequent

[1] Budget Statement (1924-5), pp. 10-11.

years before any net receipts could be deemed to accrue. If, after the payment of the contribution, the amount available for transfer to the railway reserves exceeded Rs. 3 crores, one-third of the excess was to be paid to the general revenues. A Railway Reserve Fund was to be accumulated from the surplus profits, and this was to be used for securing the payment of the annual contribution and for providing, if necessary, for arrears of depreciation and for writing down capital. If the earnings on strategic railways were not sufficient to pay the interest on the capital invested on them, the deficiency was to be borne by the general revenues and would therefore be deducted from the contribution It was also decided to constitute in the Legislative Assembly a Standing Finance Committee on Railways, before which the annual railway estimates might be placed prior to the discussion of the budget in the Assembly Great expectations were raised by this arrangement. Sir Basil Blackett said 'The tax-payer will receive a regular and increasing contribution from his investment, largely independent of fluctuations in railway receipts and expenditure, and the railways will be able to spend money according to the real needs of the railway system, unimpeded by the necessity for conforming to the vagaries of budget figures and the requirements of budget accounting. The railways will become a real commercial undertaking managed on commercial lines and the tax-payer will get the benefit of commercial accounts and management.' These expectations were not fulfilled, as we shall see later.

The ordinary or unproductive debt of the Government of India had fallen from Rs. 105 crores in 1898 to Rs. 3 crores in 1916. Then came the World War and the debt swelled again It stood at Rs. 261 crores in 1922 and Rs. 228 crores in 1924 Out of this, Rs. 98 crores represented the accumulated deficits, about Rs. 10 crores was due to the building of New Delhi, and Rs. 120 crores was India's War debt. To this must be added the productive debt of Rs 578 crores. From the first Sir Basil Blackett was convinced that the unproductive debt ought to be redeemed, and his knowledge of the management of the British public debt was very helpful in this connexion He suggested in his budget speech of 1923 that the unproductive debt should be redeemed in fifty years and the productive debt in eighty years. At the rate of 5 per cent compound interest, it was found necessary to make an annual provision of Rs. 3·66 crores. In a Resolution adopted on 9 December 1923, it was decided that, for a period of five years in the first instance, the annual provision for reduction or avoidance of debt to be charged against revenues should be fixed at Rs. 4 crores plus one-eightieth of the excess of the debt outstanding at the end of each year over that outstanding on 31 March 1923. Blackett also carried through some successful conversion operations, and thus considerably reduced the burden

of the annual debt charges. The improved credit of the Government of India was an important factor in the success of these operations.

We have already dealt with the dislocation of the Indian currency and the injury that it did to the trade and public finance of the country. In 1925 a Royal Commission was appointed, with Sir Hilton Young as chairman, to inquire and report on the reorganization of the Indian currency, and it reported in 1926. The principal recommendations were that the Indian currency should be based on a gold bullion standard, that a Reserve Bank should be established to manage currency and credit in India, and that the ratio of the rupee to gold should be fixed at 1*s*. 6*d*. As is well known, the third of these recommendations caused a great deal of controversy in the country. However, by the Currency Act of 1927, the Indian currency was placed on a gold bullion standard and the ratio of 1*s*. 6*d*. was adopted. The question of a Reserve Bank for India was also soon taken up

Blackett was also keen on reorganizing the tax system of the country. The tax system as a whole, and in particular the distribution of the tax-burden as between economic groups and provinces, evoked considerable criticism in those days, and therefore in 1924 the Government appointed the Indian Taxation Enquiry Committee with Sir Charles Todhunter as chairman to survey the whole field of taxation, central, provincial and local, with a view to improving the existing sources, finding new sources and overhauling the machinery of tax collection The exclusion of land revenue (in some of its aspects) from the scope of the inquiry created some controversy in the Assembly. The Committee made a searching analysis of the tax resources and submitted its report in 1925.

The establishment of the Indian Tariff Board was also largely due to Blackett With a view to giving effect to the policy of discriminating protection which the Government adopted in 1923, a Tariff Board was established in that year as an expert body to advise the Government on specific proposals or requests for protection The fundamental conditions to be fulfilled by an industry in order that it may be granted protection were (1) that the industry should possess natural advantages, (2) that without the help of protection it would not be likely to develop at all or not so rapidly as would be desirable, and (3) that it would eventually be able to face world competition without protection. By 1934 the Board had carried out 50 inquiries In a large number of cases the Board recommended the grant of protection and in regard to many of them the Government gave effect to the recommendation The principal industries that have thus been given protection are the cotton mill industry, iron and steel, matches, salt and sugar.

Another important subject that interested Blackett was the

encouragement of the investment of Indian capital in the country. In 1924 a committee was appointed, with Blackett himself as chairman to consider the question of the flow of capital into India from external sources. The Committee reported that restrictions on external capital were neither practicable nor desirable, but recommended a number of specific measures for increasing India's capital resources. 'India possesses', they said, 'a vast store of dormant capital awaiting development, and in order to make this available for investment banking facilities must be increased and extended.'

India owes a great deal to Sir Basil Blackett He thoroughly overhauled the Indian financial system. He was intensely interested in the development of India's resources and he believed that Indian economic life could be quickened and enriched by exploiting the dormant capital of the country 'Idle money', he said in an address at the Delhi University, 'means idle manhood. Capital newly invested in India's development means the opening of new avenues of employment and will go far to solve the problem of careers for Indian graduates The new capital required must be mainly India's own capital, if only because the amount that can be safely borrowed from abroad, even if it were forthcoming, is strictly limited in amount. For a century and more India has been accustomed to rely mainly on external capital both for her governmental capital expenditure and for the development of her industrial resources. To some it may sound fantastic, in view of this historic habit, to talk of India's not only supplying the whole of her own capital requirements, but also becoming a lender of capital for the development of other countries Yet I believe firmly that, given the necessary development of banking and credit facilities and goodwill and readiness to profit by the counsel and assistance of European businessmen, the time is not very far distant when India will be doing both these things India would seem by nature to be destined to be a creditor country, if only her people will it so.'[1] It was with such aims in view that Blackett increased the facilities for the accumulation of savings, especially small savings, and prepared the ground for a reorganization of the Indian banking system. In many ways, Blackett reminds one of James Wilson. On both of them fell the heavy duty of reorganizing the Indian financial system after a serious dislocation, and both discharged that duty with great earnestness and singleminded devotion to the country's interests.

§4. *Provincial Contributions*

We have already seen that the provincial finances were also affected adversely by the depression that followed the War. The

[1] *India in 1925-6*, p. 289

provincial Governments struggled to balance their budgets by practising strict economy and by raising fresh taxation. Under the Reforms, the provincial Governments were made responsible for the provision of what are called 'nation-building' services; to wit, education, public health, agriculture, industrial development, etc. This meant a large increase in establishments and in the salary bill. But the revenues assigned to them were of a comparatively inelastic nature. Nor were those revenues fully theirs; out of them they had to pay large contributions to the central exchequer. The burden of the contributions fell lightly on certain provinces, but heavily on others Madras and the United Provinces complained bitterly about the inequality of the burdens. Madras had to pay an initial contribution of nearly Rs. 3½ crores.

The Government of India realized the justice of these provincial complaints, but were unable to modify the Meston Award as its own finances were in a parlous condition But the central finances improved after 1924, as we have seen The budget for 1925-6 showed a surplus of Rs 3·24 crores and Blackett announced that Rs 2·50 crores would be used for a remission of provincial contributions According to the Meston Award the first remissions were to go to Madras, the United Provinces, the Punjab and Burma, and only after half of their total contributions had been remitted could other provinces be given any relief Thus Madras received Rs 126 lakhs, the Punjab Rs 61 lakhs, the United Provinces 56 lakhs and Burma Rs 7 lakhs In 1926-7 the Central Government were able to spare a further amount of Rs. 1·25 crores and this was also distributed among the same four Provinces. In 1927-8 the Finance Member declared a net recurrent surplus of Rs. 3·64 crores This was not sufficient to wipe out the whole of the contributions, but, owing to the appeal for help from Bombay, the contributions were remitted *in toto* for that year by diverting a portion of the surplus set apart for debt redemption. This total remission was then said to be only a temporary measure, but, as the central finances showed a further improvement in the following year, Sir Basil Blackett was able to announce the total abolition of the contributions in his budget statement for 1928-9. 'Ever since the reforms were inaugurated', he said, 'the provincial contributions have been a millstone round the neck both of the central Government and of the provincial Governments, poisoning their mutual relations and hampering their every action Their quality, even more than their amount, has strained the resources of the giver and the patience of the recipient. They have brought curses, not blessings, both to him who has given and to him who has taken.'[1]

In other ways also, the financial position of the provincial Governments was consolidated and improved. The Act of 1919

[1] Budget Statement (1927-8).

increased the borrowing powers of the provinces. Some of the provinces accordingly raised their own loans within India, but it was found that they had to pay rates of interest higher than those paid by the Government of India. It was therefore found more advantageous for the provinces to borrow from the central exchequer, and to systematize such borrowings a Provincial Loans Fund was established in 1925 [1] Its object was to regulate the terms and conditions, the rates of interest and the period of amortisation of all advances made by the central Government to the provinces. This fund was intended to be self-supporting and independent of the central debt. The Government of India normally refrained from scrutinizing the purposes for which the loans were taken, but the terms as to interest and repayment varied according as the loan proceeds were to be used for remunerative capital expenditure or otherwise. The provincial Government's right to borrow in the open market subject to the conditions in the Local Government Borrowing Rules still remained intact. It has been gradually becoming clear from the experience of other Federations, especially Australia, that a co-ordination of borrowing by the Governments in a Federation is essential, in the interests both of the central Government and of the provinces, and that a system of co-operation through a common agency is often the best arrangement. The establishment of the Provincial Loans Fund was therefore a step in the right direction When introducing that scheme in the Assembly in 1924, Blackett expressed the hope that the fund would some day be administered by an Indian body corresponding to the National Debt Commissioners and the Public Works Loan Commissioners in England.[2] As a result of this scheme the provinces were enabled to borrow on easier terms for development purposes.

Another longstanding grievance of the provinces was that, though they were charged interest when they overdrew their balances with the Government of India, they were allowed no interest when they had credit balances. This grievance was also removed by the decision that the provinces need pay no interest on withdrawals during the financial year; any overdraft outstanding at the end of a financial year was to be converted automatically into a loan.

The separation of the provincial balances from the central is essential for the financial autonomy of the provinces. As Sir Frederick Gauntlett, Auditor-General, said · ' The recognition of a right to separate balances almost necessarily seems to imply the recognition of a right to a larger degree of freedom from external financial control. Moreover, until a government has its own separate balances it cannot adequately realize the importance of financial consideration.' But various circumstances made this

[1] Simon Commission, vol V (Memoranda), Part II, pp 1014-20.
[2] Budget Statement (1924-5)

reform difficult at the time and the matter had to wait till the Reforms of 1935.

Another financial proposal considered was the separation of audit from accounts Such a reform was regarded as essential for some time, and as an experimental measure, audit was separated from accounts on the civil side in the United Provinces and also in certain departments of the Government of India In regard to the Army, such a system had already been practically in vogue. But the experiment was not regarded as a great success and on financial grounds it was abandoned with the approval of the Secretary of State 'The question which system is the more correct one in principle still remains open.'[1]

[1] Introduction to the Indian Government Accounts and Audit, No 11, dated 2 March 1934.

CHAPTER XXVII

PROPOSALS FOR RE-ALLOCATING FINANCES

§1. *Defects of the Meston Settlement*

As we have already seen, the financial settlement of 1919 caused a serious strain in the relations between the Government of India and the provincial Governments. A persistent agitation continued for a modification of the 'Meston Settlement'. The 'industrial' provinces, namely Bombay and Bengal, made the loudest complaints, but the 'agricultural' provinces (Madras, the United Provinces, the Punjab and others) also joined the chorus, although on different grounds For the moment, the provincial contributions formed the principal cause of complaint, and therefore they were rectified at the earliest opportunity. By the abolition of the provincial contributions in 1927, the grievances of the agricultural provinces were removed, but those of the industrial provinces still remained and their protests became even louder afterwards Their main complaint was that, while the provincial expenditure was necessarily expansive, the provincial revenues were inelastic and altogether inadequate to meet the growing needs of the 'transferred' services Provincial taxes were paid chiefly by the agricultural classes, and it was not possible to add much to their burdens Industrial income went on growing, but the provinces could not tax it Since customs duties and the income-tax went to the central Government, the revenues of the industrial provinces were very inelastic They felt this especially after the abolition of the provincial contributions, which increased the resources of the agricultural provinces The industrial provinces therefore pressed for a modification of the whole basis of the division of revenues between the central Government and the provinces.

It is by no means an easy task to examine the equity of the distribution of sources of revenue between the central Government and the provinces Some of the criteria used by critics were rather unsuitable. The Meston Settlement was often criticized on the ground that a much larger proportion of the total revenue of the industrial provinces than of the agricultural provinces was taken by the central Government. For instance, it was pointed out that of a total revenue of Rs. 28½ crores raised in Bengal, the provincial Government was given only Rs. 7 crores or 25 per cent., while Madras obtained Rs. 8 crores out of Rs. 20 crores (40 per cent.) and the United Provinces Rs. 8 crores out of

Rs 13·75 crores (60 per cent)[1] The weakness of this line of reasoning is obvious. The total revenue taken for comparison includes customs and income-tax collections. It is a well-known fact that a very large proportion of the exports and imports of all India passes through, and are taxed at India's two principal ports, Bombay and Calcutta, and to assign to the provinces of Bombay and Bengal the large customs collections at those two large ports would be most unjustifiable Income-tax stands on a different footing; yet, as we shall see presently, it would be most unfair to assign to Bengal and Bombay all the income-tax collected in those provinces.

A more reasonable method of comparison is to see what increase of revenue accrued to each province as a result of the Reforms. This is shown in the following table

Increase of Revenue from 1921-2 to 1928-9

(In lakhs of rupees)

Province	Revenue 1921-2 (deducting contributions)	Revenue 1928-9	Percentage increase
Madras ..	11,46	17,53	53
Bombay	13,11	15,22	16
Bengal	8,32	10,99	32
United Provinces .	10,02	11,45	14
Punjab .	7,10	11,16	57
Burma .	9,18	11,12	21
Bihar and Orissa .	4,43	5,87	30
Central Provinces	4,63	5,36	16
Assam	1,81	2,74	50
Total provincial revenues	[illegible]	91,44	30

It is clear from the above table that the Punjab and Madras enjoyed a much larger increase of revenue than Bombay, the United Provinces, Bengal, and Bihar and Orissa. But it does not necessarily follow that the arrangement was unfair. This result was partly due to the rectification in 1919 of the longstanding injustice suffered by certain provinces before the Reforms. As has been shown in previous chapters, Madras and the United Provinces contributed before 1920 much larger proportions of their total revenues to the central exchequer than Bengal and Bombay, but this inequality was hidden by the system of 'divided heads'. This was largely rectified in 1919 by assigning certain revenue heads to all the provinces alike, except so far as it was continued temporarily by the system of provincial contributions.

Another way of examining the equity of the settlement is to

[1] Note of the Finance Committee of Bengal on the Meston Committee's Report. This point of view is also emphasized by J N. Gupta, *The Case for Financial Justice to Bengal* (1931), pp 34-6.

compare the revenues of the different provinces on the *per head* and *per unit of area* bases The following table brings out this comparison (for the year 1929-30) ·

Province	*Revenue per head of population*	*Revenue per square mile*
	Rs.	Rs.
Madras	3·98	1,184
Bombay	6·95	1,089
Bengal	2·25	1,367
United Provinces	2·84	1,213
Punjab	5·66	1,173
Burma	8·35	472
Bihar and Orissa	1·69	690
Central Provinces	3·80	530
Assam	3·40	488

We may also compare the expenditure in the different provinces on transferred services, but this mode of comparison is also liable to the defect mentioned above.

Expenditure in lakhs of rupees

Province	1922-3	1929 30 (budget)	Percentage increase
Madras	4,11 3	7,63 8	86
Punjab	2,99 0	5,42 7	82
United Provinces	2,98 0	3,88 2	30
Bombay	4,53 5	5,67 6	25
Bengal	3,53 9	4,04 0	14

In the following table a comparison is made of the expenditure on education and public health per head of population in the different provinces The figures are for 1929-30.[1]

Province	Expenditure per head on		
	Education	Medical and Public Health	Total Expenditure
	Rs as ps.	Rs as ps	Rs as ps
Madras	0 9 9	0 5 5	4 2 11
Bombay	1 1 0	0 7 6	8 4 8
Bengal	0 4 6	0 3 4	2 8 10
United Provinces	0 6 9	0 2 3	2 11 8
Punjab	0 13 0	0 6 3	5 8 8
Burma	0 15 4	0 7 10	8 9 11
Bihar and Orissa	0 4 2	0 2 5	1 13 0
Central Provinces	0 6 6	0 2 7	3 12 8
Assam	0 6 9	0 4 8	3 14 9

[1] See *Simon Commission Report*, vol. II, p 233.

That there are great disparities between the different provinces in the standard of expenditure is clear. Between Rs. 1-13-0 per head in Bihar and Orissa and Rs. 8-4-8 per head in Bombay, the gap was a great one. But it must be borne in mind that these figures give no clear indication of the true state of affairs in the different provinces. As Layton has pointed out, in a province like Bombay with a scattered population more teachers and policemen must be maintained per head of population; and the cost of roads and of medical and sanitary services must be higher per head.[1] The differences in the cost of living and in the standard of remuneration between the different provinces must also be taken into account Nevertheless, the fact remains that in some provinces progress had been rapid, while in others it had been slow. In the case of Bombay, it is true the standard of expenditure was already comparatively high, but in provinces like Bengal, and Bihar and Orissa, the level of expenditure was low and did not show any tendency to rise Various historical and other causes can be found for the rigidity of revenues in certain provinces. In Bengal and other permanently settled tracts, land revenue has hardly increased in the last hundred years, and even the attempts to impose cesses have been only partially successful. Excise is also not a very elastic source in Bengal, and therefore the growth of revenue in that province was confined to stamps, registration charges and small items like amusement-taxes. Thus the allocation of sources of revenue in 1919 was unfavourable to Bengal. Other provinces sought to enhance their revenues by additional taxation, but Bengal did not do so

The difficulties of Bombay arose chiefly from its rather lavish outlay on certain development schemes which proved unprofitable financially. The result was that Bombay had to spend nearly 20 per cent of its revenue on debt charges, while other provinces spent on that head only 8·5 per cent on an average Madras, for instance husbanded its resources very carefully and consequently its debt charges came to only 5 per cent of its revenue in 1929-30.

The following table shows the burden of land revenue and excise per head in the various Provinces in 1928-9.

Province	Land Revenue		Excise Per head
	Per head	Per acre	
	Rs. as ps	Rs as. ps	Rs. as ps.
Bengal	1 3 8	0 11 0	0 7 2
Bihar and Orissa	0 9 5	0 8 6	0 8 1
Bombay	1 11 6	2 7 9	1 12 9
Madras	2 5 0	1 14 9	1 3 3
United Provinces	2 0 0	1 15 9	0 4 4
Punjab	2 5 7	3 6 4	0 8 3

[1] *Simon Commission Report*, vol. II, p. 282.

Whatever might have been the causes of financial stringency in the provinces, there is no doubt that in the interests of economic welfare the provinces needed larger revenues than they possessed. The duties connected with the economic and social development of the country fell mainly to them, and without adequate revenues they could not be expected to discharge those duties satisfactorily. It was also necessary to enlarge their powers, so that they might feel full responsibility for their own financial solvency.

§2. *Proposals for Reform*

The question of a re-allocation of resources between the central Government and the provinces was taken up soon after the Reforms, and it evoked a prolonged controversy, not only between the Governments concerned, but also among businessmen and economists. It formed part of the subject-matter of the inquiries by the Muddiman Committee (1924), the Indian Taxation Enquiry Committee (1924-5) and finally the Indian Statutory Commission (assisted by Sir Walter Layton) in 1929-30. Chambers of Commerce discussed the matter at their conferences, and the Indian Economic Association made it the subject of its deliberations at its annual conferences in 1929, 1930 and 1933.

In a composite, quasi-federal political system like that of India, there are three possible methods of effecting the financial adjustment between the centre and the provinces: (1) the whole of the revenues may be collected by the central Government and a part may be distributed among the provinces; (2) the whole revenue may be collected by the provinces and then contributions may be made to the central Government; (3) each Government may have its own independent sources of revenue. The first method had been tried before 1919 with unsatisfactory results and it is necessarily unsuited to a quasi-federal system in a country of the size of India with provincial Governments which govern larger populations and territories than most of the sovereign states in Europe. The second alternative would place the central Government in the position of a pensioner of the provinces and is utterly unsuited to the requirements of India. Provincial contributions were tried and were found to be 'a curse both to those who gave and to those who received'. We are therefore left with the third alternative of separating the resources of the central Government and the provinces. This was what the Reforms of 1919 actually did. For the first time the provinces were placed on a basis of substantial financial autonomy and were dealt with uniformly in regard to sources of revenue. Thus a thoroughly federal system of finance was adopted, although the constitutional frame-work was still unitary. The separation of sources of revenue was carried further than in many federal constitutions. Owing to the predominance of two or three large taxes in the revenue system of most countries,

it has been found difficult to effect a complete separation of the federal and the provincial heads of revenue, and therefore in some of them (e g. Canada, and Germany before 1934) the proceeds of certain important taxes are divided between the two governments in some fixed proportions; in others the two governments raise independent taxes of the same kind side by side (e.g Federal and State income-taxes in the U.S.A and Australia) In India it cannot be said that the Governments depend mainly upon two or three large taxes; there is perhaps a larger variety of resources than in the case of many Federations. But, even here, difficulties are bound to arise when a clean separation of revenue heads is made. In the first place, certain revenue heads like land revenue and excise are high yielders in some provinces and low yielders in others. Secondly, the most expansive revenue heads in a developing country must be those directly depending upon industry and trade, namely, customs, income-tax, excises and commercial stamps. Most of these were allotted to the Centre in India, and thus the provinces were given very little access to the expanding resources resulting from increased industrial and commercial activity. The following table shows that the revenue from the two most important provincial heads had increased little between 1914 and 1930, whereas the revenue from the two most important central heads in 1930 was about five times what it was in 1914.

(In crores of rupees)

Revenue head	1861-2	1901-2	1914-5	1930-1
Land Revenue	19 5	27 4	31 8	30·2
Excise (Provincial)	1 6	6·0	13 2	16 7
Income-tax	1 1[1]	1 9	3 0	16 3
Customs	2 8	5 7	9 4	46 8

It is evident that in this period the proceeds of customs duties and income-tax proved to be very expansive, although this was largely due to increases in the rates of tax. Whenever economic development goes on rapidly, these revenues (especially income-tax) are likely to expand.

§3. *Proposals for Re-allocation*

Various measures of reform were considered in the course of the inquiries mentioned above. As a radical remedy, it was suggested that the whole of the revenues might be collected by the provincial Governments and contributions made by them to the central Government. Others thought that a redistribution of the revenue heads would suffice. But the view that finally obtained

[1] This figure is for 1860.

the greatest support was that the worst faults of the Meston Settlement could be remedied by making the income-tax a balancing factor. It was also suggested that a Provincial Fund might be set up from which grants could be made to adjust inequalities.

1. With a view to giving complete fiscal autonomy to the provinces, it was suggested (e g by some members of the Indian Central Committee on Constitutional Reforms) that all the revenues of India should belong to the provinces where they are collected. There are serious objections to this proposal. To make the central Government a pensioner of the provinces would weaken its authority and reduce its effectiveness in every way An arrangement of that kind made the American Confederation of 1780 an unmitigated failure, since it was found difficult and almost impossible to compel defaulting states to produce their quotas. Even the weakest Federation today gives independent financial resources to the central Government

It can also be shown that the proposed system would result in unfairness as between provinces.[1] As already explained, revenues like customs and income-tax are largely collected at big ports and trade centres like Calcutta and Bombay and to assign them to the two provinces where they happen to be mainly collected would result in gross injustice to the other provinces. The case of customs revenue is the most glaring. It is collected chiefly at the main ports, but is ultimately paid by the people all over the country; and it would be impossible to allocate the proceeds of import duties to the various provinces on the basis of ultimate consumption without an elaborate and expensive bonding system. In exceptional cases, such as that of the export duty on jute, allotment can be made between provinces on the basis of the amount produced in each But the incidence of the duties on imported goods which form the mainstay of the customs revenue is uncertain. Further, it is essential that there should be uniform rates of customs duties throughout India, and this can only be effectively secured by means of a central organization The fact is that the existing provinces of India are not suitable areas to be treated as independent fiscal units. If India were divided up into four or five homogeneous provinces, each being an economic unit with its own port and its agricultural and industrial areas, it might then be possible to establish a fiscal system as proposed above. In the present circumstances, many of the provinces cannot establish any natural right to the revenues collected within their territories. The absurdity of such a claim becomes clear when we remember that under that arrangement Bengal would get over Rs. 40 crores of revenue while Bihar and Orissa, with a population only 25 per cent. less than that of Bengal, would get only about Rs. 7 crores.

[1] *Simon Commission Report*, vol. II, pp. 245-7.

2. Some persons suggested a partial redistribution of revenue heads with a view to increasing the provincial resources. Some of the proposals put forward were sound; for instance, it was very desirable that commercial stamps should be transferred to the central Government, as the regulation of them was connected with central functions and the rates prescribed should be uniform throughout the country. Other proposals were not equally wise. One of them was the transfer of income-tax to the provincial Governments and of the excise on liquor and drugs to the central Government.[1] For the moment, the central Government would have been the gainer as the revenue from excise was Rs. 19 crores while that from income-tax was only between Rs 15 and Rs. 16 crores, but eventually the latter would expand much more than the former and thus the provincial Governments would be able to obtain increasing revenue for financing the nation-building services. The proposal however, was not feasible, as the difficulties involved were insuperable. The liquor excise systems of the different provinces differ fundamentally, and it would not be easy to make them uniform Nor is it desirable to leave to officers of the central Government work which touches so closely the life of the people and requires the help of the Police, who are under provincial control. Some supported the proposal on the ground that a centrally administered excise would facilitate prohibition, but that made the proposal specious, if not dangerous.[2]

It may be noted that the proposal for provincializing the income-tax came chiefly from Bengal and Bombay In those two provinces the income-tax collections are large, but (as has already been shown in regard to customs revenue) it would be untrue to say that all the income-tax collected in those provinces arises only from them The incomes on which tax is collected in those two provinces are not entirely earned in them The head-offices of most large businesses in India are at Calcutta or Bombay, and naturally they are assessed to income-tax there, but it would be a great injustice to the other provinces if all the income-tax paid by such businesses were assigned to the provinces where it is collected. As Sir Walter Layton cogently puts it 'The population of towns, and in particular that of the capital cities, builds up its economic life on that of the country as a whole, while the prosperity of the great ports has its roots in the villages of the interior as well as in those of seaboard provinces themselves. The shipping concerns and commercial houses of Karachi or Bombay, for example, may enjoy increased profits next year as a result of favourable agricultural conditions in the Punjab. These profits will mean higher income-tax assessments in respect

[1] See R M. Joshi's paper in the *Indian Journal of Economics*, January 1929

[2] 'The Readjustment of the Indian Financial System' by P J Thomas, *Indian Affairs* (London), vol. I, No 1 (1930).

of incomes earned in the presidency of Bombay and increase the consumption in those cities of imported goods and, therefore, the amount of customs revenue collected But it would be a mistake to attribute this expansion of revenue to the special industry or good fortune of the Presidency alone On the contrary, it would be due primarily to conditions elsewhere. . . . Under these conditions the tax revenue which arises from the activities of great centres, such as Bombay and Calcutta, is properly to be regarded as due to the whole economic life of India and not merely to that of a particular territory round those ports.'[1]

§4 *Division of Income-tax*

It must be admitted, however, that if the provinces can put forward a reasonable claim for any of the revenues now central, it must be for a share in the income-tax and perhaps also the salt tax. Although the income-tax revenue from the incomes of the larger businesses should be definitely central, there is no special reason, theoretical or practical, for the central Government being given the whole proceeds of the tax on personal incomes As Layton puts it · ' The system of distribution (of revenues) must enable a province to benefit from its own economic development and from the enlargement of its own tax-producing capacity. In other words it must receive some benefit from an increase of the revenue which arises within it '[2] A good part of the burden of industrial development falls on provincial shoulders and to deny them any share in the tax on the resulting income was unjustifiable. It was on these grounds that under Devolution Rule 15 framed under the Government of India Act, 1919, three pies in the rupee of any excess in the income assessed to tax in a province in any year over that so assessed in 1920-1 was assigned to the provincial Government out of the proceeds of the income-tax. But the share thus allotted to the provinces was far too small. While industrial production was growing rapidly in Bombay and Bengal, those provinces had to look on and see practically the whole benefit so far as tax revenue was concerned going to the Government of India, although a good part of the burden of increased expenditure on this account fell on the provincial Governments. The provinces complained that while the central Government taxed the wealthy man, they could only tax the poor man.[3]

There was general agreement as to the advisability of giving the provinces a share in the income-tax revenue, but difficulties

[1] *Simon Commission Report*, vol II, p 246

[2] ibid., p. 251.

[3] The Financial Secretary of the Bombay Government said at a Conference. ' If there is to be any real provincial autonomy, we ought to aim at a system of taxation which permits the local Government to distribute its taxes according to principles which are recognized as being equitable We cannot tax industries at all; we can only tax the cultivator and the poor man.'

arose when the mode of division was considered. Three methods of dividing the proceeds of taxes on income between the Centre and the provinces have been employed in other countries, namely (1) levy of separate income-taxes by the two governments, (2) levy of the tax by the centre, with surcharges for the benefit of the provinces, and (3) division of the yield between the two governments in some proportion.

1. In the federal constitutions of the United States and Australia, the States as well as the Federal Government levy separate income-taxes. Normally each employs its own staff for collection.[1] This system has proved expensive and annoying in those countries The existence of two independent taxing authorities operating within the same sphere is bound to cause considerable irritation to the tax-payers. On these grounds, that arrangement was condemned by the Royal Commission which inquired into the tax-system of Australia in 1920. Things would be worse if the rates varied between different States. It is true that local authorities in India are permitted to levy taxes directly assessed on income and this has not caused any great annoyance. Considering the large size of India and the fact that the exemption limit for the central income-tax is fairly high, would it be practicable to develop a separate provincial income-tax in India?

2. In European countries, the income-tax is levied by the central Government, which also levies surcharges (*centimes additionnels*) for local purposes. The Taxation Enquiry Committee found various objections to the levy of any such surcharge in India for provincial purposes, but those objections seem to have been largely due to certain misconceptions.[2] It would not be fair, for the reasons given above, to make this levy on the total amount collected in a province, but no theoretical objection can be raised against a surcharge on the tax paid on personal incomes of residents within the province. The fear that such surcharges might encroach upon the sphere of central taxation would be removed if the surcharges were limited to a definite percentage of the rates prescribed by the Government of India.[3] Layton supported the scheme of enlarging provincial resources by means of surcharges on the income-tax.

3 A third alternative is to assign to the provinces a share in the proceeds of the income-tax levied and collected by the central Government By this arrangement a uniformity in rates and law can be secured, and on these and other grounds this has found favour in India Two alternative modes of dividing the proceeds of the central income-tax were considered.

[1] The State of Massachusetts, however, engages the Federal Officers to collect the State tax as well

[2] *Taxation Committee Report* (1926), p. 381.

[3] *Simon Commission Report*, vol. V, Part II, pp 875-6.

(*a*) The Governments of Bengal and Bombay proposed that one-half of the proceeds of income-tax and super-tax collected within a province should be assigned to that province. This would, of course, enable those two Governments to obtain for themselves a very large share of the income-tax revenue, but the injustice of any such method of assignment based on total collections has already been explained. It would be extremely difficult to apportion the income of companies according to origin; if personal incomes only were taken into account, this proposed method of assignment would be reasonable.

(*b*) Another basis of distribution was proposed by the Taxation Enquiry Committee, which investigated this matter carefully, in the light of the conclusions of the League of Nations Committee of Experts on Double Taxation in 1921. The following were the principal recommendations of the Taxation Committee.[1]

Central	*Provincial*
1. Super-tax.	1 A basic rate on personal incomes graduated proportionately to the general rate.
2. Collections on incomes that do not appertain to residents in particular provinces; e.g the tax on the undistributed dividends of companies and on incomes of persons resident abroad.	2 A small portion of the receipts of the Corporation Profits Tax

The proposal to assign to the provinces a part of the tax on personal incomes has the advantage that the amount would vary with the taxable capacity of the province, but a graduated basic rate would be inconvenient unless the Government of India could also adopt the same system of graduation. Therefore a flat rate on the total personal incomes was suggested by the Government of India as a simpler and more convenient arrangement.[2] It would vary with the volume of economic activity in the province, and the provinces would thus get an elastic source of revenue. The above proposal was discussed at the conferences of provincial representatives in 1926 and 1927 and was generally agreed to by the provincial Governments. The Government of India objected, however, to the proposal to assign to the provinces a small part of the receipts from super-tax levied on companies Layton agreed with the Taxation Committee on general principles, but thought it preferable to give to the provinces one-half of the proceeds of the tax on personal incomes. He considered that in view of the

[1] *Report*, pp. 384-5.
[2] Circular letter to the Provinces, No. 116, dated 13 August 1926, para 7.

financial position of the Government of India no part of the proceeds of the super-tax could be given to the provinces.[1]

§5. *A Provincial Fund*

It was also realized that a re-allocation of existing resources was not sufficient, fresh sources had to be tapped if the provinces were to be given adequate revenues For various reasons some authorities considered that it was not advisable to leave it to the provinces to levy the new taxes and that it would be better for the central Government to levy them and distribute the proceeds to the provinces Sir Walter Layton drew up a proposal for a Provincial Fund, to be administered by an Inter-Provincial Council under the chairmanship of the Finance Member of the Government of India The Fund was to be distributed on the basis of population Excises on cigarettes and matches were suggested as possible sources of revenue for the Fund and also the salt revenue, if and when the financial position of the central Government permitted it.[2] These three excises were expected to yield a revenue of Rs 14 crores at the end of ten years The Simon Commission blessed this scheme and the Government of India gave it their general approval in their Dispatch on the Statutory Commission's Report.[3] As we shall see, this proposal had some influence on the scheme finally adopted by Parliament in 1935.

Soon after the Simon Commission had reported, the revenues of India shrank under the pressure of the greatest economic depression of modern times, and therefore the estimates and assumptions of Sir Walter Layton were upset The rectification of the Indian financial system was also put off By the time the Round Table Conference came to consider the financial problem, the idea of an all-India Federation had been adumbrated and fresh inquiries had to be made preliminary to devising a scheme of federal finance.

[1] *Simon Commission Report*, vol II, pp. 256, 258.
[2] ibid , pp 259, 263-4
[3] ibid , pp 133-4, Government of India's Dispatch, dated 20 September 1930, pp 62-7

CHAPTER XXVIII

INDIAN FINANCES IN THE DEPRESSION

§1. *The Decline of Trade and Revenues*

After 1922 the financial position of the Government of India became rather strong The external demand for India's staples went on increasing As a result trade improved, the balance of trade became favourable and the revenue expanded It was therefore possible not only to reduce or abolish certain taxes, but also to wipe out the provincial contributions altogether It was then expected that such conditions would continue; and the Simon Commission looked forward to a definite upward movement in the revenues of the central Government, especially from customs duties and income-tax [1] These expectations were not fulfilled The Wall Street boom collapsed (October 1929) sometime before the Simon Commission finally reported (1930), and soon the whole world was plunged into the abyss of an unprecedented economic depression Between October 1929 and December 1931, the prices of India's chief staples fell by about 40 per cent The Calcutta index number (base 1914), which stood at 143 in October 1929, fell to 87 by June 1932.

The slump had most baneful effects on the trade and finances of the country The export trade of India in the ten years ending 1929-30 amounted to an annual average value of Rs. 326 crores, but by 1932-3 it had fallen to Rs 136 crores—hardly two-fifths of the former average The extent of the fall will be clear when we remember that even the pre-War average (ten years ending 1914) was Rs 195 crores The import trade also fell from Rs 243 crores (average of ten years ending 1929-30) to Rs 132 crores in 1932-3. Imports would have shrunk further, had it not been for the additional purchasing power created by the export of gold in copious quantities from 1931.

This tremendous decline in foreign trade completely upset the revenue position of Government After the War, about two-thirds of the central Government's revenues came from customs, a source which depends directly on external trade Import duties produced the bulk of the customs revenue, and the imports which paid the largest revenue were sugar and cotton goods. The amounts of sugar and cotton goods imported declined rapidly after 1928, partly no doubt because of the country's dwindling purchasing power, but chiefly on account of the great increase in

[1] *op cit*, pp 220-2.

home production which resulted from the State's protective policy and the strong 'swadeshi' spirit among the people. The import duty on sugar, which brought in Rs. 10·63 crores in 1930-1, produced hardly Rs. 5 crores in 1933-4; the revenue from duties on cotton goods also fell greatly owing to the rapid fall in imports. The revenue from income-tax registered a sudden decline, as was but natural, seeing that the profits of companies assessed to income-tax fell from Rs. 53 crores (average of five years ending March 1930) to Rs. 29 crores in 1932-3. Perhaps the most pitiable record is that of the non-tax revenues, especially those from the commercial departments The following table is self-explanatory :

Non-Tax Revenue of the central Government

(In crores of rupees)

Items	1923-4	1929-30	1933-4
Net revenue from commercial departments (chiefly Railways)	8 97	5 24	56
Net revenue from opium	1 66	2 55	88
Net revenue from currency and mint ..	2 14	2 00	74
Interest receipts	3 16	4 40	1 63
Extraordinary receipts	2 60	1 89	36
Other revenues	2 72	3 38	2 72
Provincial contributions . . .	9 20	.	.
Total ..	30 45	19 46	6 89

The position of the Railways was the most disappointing factor. After the separation of the railway budget in 1924, the railway finances improved for a time and the contribution to the general revenues was maintained at an annual average of about Rs. 6 crores till the depression deepened. The following table shows the position of the state-owned Railways before and after 1929 :

Railway Finances, 1924-5 to 1935-6

(In crores of rupees)

Year	Net[1] traffic receipts	Net revenue	Interest charges	Surplus[2] or deficit	Contribution to general revenues	Net surplus[3] transferred to reserve
1924-5 ..	38 13	37 06	23 90	13·16	6 78	6 38
1925-6 ...	35 28	34 09	24 81	9 28	5 49	3·79
1926-7 ...	34 64	33 37	25 87	7 50	6 01	1 49
1927-8 ...	38 99	38 12	27 27	10 85	6 28	4 57
1928-9 ..	37 51	37 11	29 33	7 81	5 23	2 58
1929-30 ..	34 52	34 50	30 46	4 01	6 12	−2 08
1930-1 ..	27 64	27 53	32 72	−5 19	5 74	−10 93
1931-2	23 86	23 87	33 07	−9 20	...	−4 95
1932-3 ..	21 58	22 68	32 91	−10 23	.	..
1933-4 .	23 57	21 62	32 58	−7 96	..	..
1934-5 ..	26 21	26 74	31 80	−5 06	...	...
1935-6 ..	29 07	29 79	31 69	−1 90	...	...

Thus in the years from 1924-5 to 1929-30, the Railways contributed nearly Rs. 36 crores to general revenues In 1930-1 the slump affected railway earnings and the contribution was paid entirely from the Railway Reserve Fund In 1931-2 the gloom deepened and, in spite of emergency retrenchment measures, deficits continued from year to year and the railway budget was only balanced by drawing repeatedly on the Reserve Fund and, after that was exhausted, on the Depreciation Fund.

§2. *The Financial Crisis, 1931*

With revenues rapidly declining and expenditure remaining high, the position of the Government of India became unenviable. Conditions were not too bright even before the slump began. The years 1927-8 and 1928-9 had closed with deficits amounting to

[1] Net traffic receipts mean the difference between gross traffic receipts and working expenses including depreciation but not interest

[2] Surplus is the balance of net revenue after the payment of interest charges. Deficit is any amount by which net revenue falls short of interest charges.

[3] Net surplus represents the balance left after payment of the contribution to general revenues.

Rs. 2·21 crores and Rs. 1·06 crores respectively. The year 1929-30 closed with a small surplus owing to certain windfalls In 1930 prices suddenly fell, trade declined and the revenue collections dwindled, as mentioned above. The revised estimates for 1930-1 disclosed a fall of revenue to the extent of Rs 13·56 crores, of which Rs 12 10 crores was under customs, income-tax and other principal heads of revenue. The year 1930-1 finally closed with a deficit of Rs 11½ crores. The revenues continued to fall, and it was feared that the year 1931-2 would close with a deficit of Rs 19½ crores.

This situation was not brought about solely by the trade depression. There were important aggravating factors like the economic boycott, frequent hartals and so forth These political disturbances weakened confidence in India as a field for investment both at home and abroad, and led to a decline in the price of Indian securities and a large withdrawal of capital from the country This meant increased expenditure on loans, and the Government of India were forced to take measures to protect their position High money rates prevailed, and this increased the difficulties of traders The rapid decline in the price of Government securities disclosed the true state of public credit The 3½ per cent India sterling stock which stood at 69 in 1929 had fallen to 60 by April 1931 By September 1931, it had fallen to 43½

The world economic situation went from bad to worse. On 21 September 1931, the British Government announced its decision to abandon the Gold Standard This created a great sensation not only in Britain but in India as well The Government of India took immediate action by issuing an ordinance relieving themselves from the obligation under the Currency Act of 1927 to sell gold or sterling, and the three days, 22 to 24 September, were declared public holidays under the Negotiable Instruments Act On 24 September the decision to link the rupee to sterling at the existing ratio was announced, and a new ordinance was issued cancelling the earlier ordinance and limiting the sale of sterling by the Government to certain definite purposes No difficulty was felt when the banks re-opened on 25 September and the temporary restrictions placed on foreign exchange transactions were soon removed

There has been a good deal of criticism of the Government's decision to link the rupee to sterling Three alternative courses were open to the Government of India in September 1931 namely, (1) to remain on gold either at the old or at a lower parity, (2) to leave the rupee to find its own level, and (3) to link the rupee to sterling at the existing or a lower ratio Considering the uncertainties of the world situation and the heavy obligations that the Government had to meet in England, partly under 'home charges' and partly for repayment of debt, the Government

found it difficult to adopt any other course than linking the rupee to sterling. This was considered to be the least risky course, and with good reason Not only India, but also most of the countries whose dealings in England played a large part in their financial operations, decided to link their currencies to sterling. Nor have the results been disappointing. The sterling area recovered much sooner from the effects of depression than the gold bloc, and within a few years it enjoyed a large measure of prosperity

§3 *How Financial Equilibrium was Restored*

The Government of India handled the crisis energetically An emergency budget was placed before the Assembly on 29 September 1931 The Government's two principal lines of action for improving the financial position were (1) retrenchment, and (2) increased taxation.

A retrenchment campaign had already been launched Early in the year, some small economies amounting to Rs 2·73 lakhs were carried out straightway, and in March 1931 a Retrenchment Committee was appointed to work with the aid of various Sub-committees These Sub-committees scrutinized both civil and military charges in a searching manner, and the Government carried out 90 per cent of the economies recommended As a result, the Defence budget was cut down from Rs 52 crores in 1931-2 to Rs 47·40 crores in 1932-3 But the situation required still more drastic action, and in the emergency budget Sir George Schuster announced a cut of 10 per cent in the pay of all Government servants drawing more than Rs 40 a month The Viceroy imposed upon himself a cut of 20 per cent and the Members of his Council surrendered 15 per cent of their salaries The cut was to last till March 1933 The saving that resulted was only Rs 1½ crores for the sixteen months from December 1931 to March 1933; but it was necessary that Government servants should make a sacrifice at a time of such serious national emergency. The uniform cut on all salaries above Rs 40 a month was regressive, but the Finance Member justified this on the ground that the fall of prices had not reduced the cost of living appreciably, except for the subordinate ranks of Government servants.

An increase of taxation was found necessary at an early stage In the budget for 1931-2, the customs duties on liquors, sugar, silver bullion, betel-nut, spices and cinema films were increased at varying rates, and surcharges ranging from 2½ per cent to 10 per cent. were placed on the general tariff. The 10 per cent. and 30 per cent. schedules with the surcharges now became 12½ per cent. and 40 per cent. schedules respectively. A surcharge of 5 per cent. was imposed on cotton piecegoods which previously came under

the 15 per cent. schedule, so that they now had to pay 20 per cent. in all. The special duties on kerosene were raised by 9 pies per gallon and those on motor-spirits by 2 annas per gallon. On sugar, pending the protection proposals, the duty was raised by Re. 1-4-0 per cwt. on all grades. It was expected by these measures to obtain an additional yield of Rs. 9·82 crores under customs. Changes were also made in the income-tax rates. Rates on incomes below Rs. 5,000 were raised by 4 pies and those on sums between Rs. 5,000 and Rs. 40,000 by 5 to 7 pies. On incomes between Rs 40,000 and Rs. 1 lakh the rate was increased from 19 pies to 25 pies. On incomes above Rs. 1 lakh the rate was to be 26 pies. Changes were also made in the super-tax rates. An increase of Rs. 5 crores was expected under income-tax and super-tax as the result of these changes.

In the emergency budget of September 1931, a general surcharge of 25 per cent on the existing rates of tax was announced, and this was to apply to all import duties and excise duties including salt and to income-tax and super-tax In addition the exemption limit for income-tax was lowered from Rs. 2,000 to Rs 1,000 of income in a financial year; the rate of tax imposed on incomes of Rs 1,000 to Rs. 2,000 was 4 pies in the rupee. The import duties on various articles were also specially raised The duty on artificial silk piecegoods was raised from 20 per cent. to 40 per cent., and that on silk yarn from 10 per cent to 15 per cent The duty on brown sugar was raised from Rs. 6-12-0 to Rs. 7-4-0 per cwt., following the Tariff Board's recommendations The duties on boots and shoes were also raised. On camphor and electric bulbs the rate was raised from 20 per cent to 40 per cent In regard to these articles, the general surcharge was to be in addition to the increased duty The surcharges imposed by the ordinary and the emergency budgets of 1931 raised the level of the general revenue tariff from 15 per cent to 25 per cent. This gave some justification for placing duties on certain articles hitherto free Accordingly a new duty of 10 per cent. was put on imports of machinery and dyes and a duty of ½ anna per lb. on raw cotton. Mainly with a view to covering the deficit in the working of the Postal Department, the rates of inland postage were raised both on letters and on post-cards

The increase of taxation raised a storm of protest in the country Business classes, both European and Indian, opposed it on the ground that it crippled trade and industry [1] The Finance Member, they said, was balancing the Government budget by unbalancing the budgets of business concerns The European Association in Madras stoutly opposed the Government's proposals and passed a resolution that 'the surcharges on customs duties

[1] For the views of Bombay millowners and others, see *Times of India*, 5 October 1931.

would be disastrous to the trade and commerce of the country at the present time, and so far from providing the increased revenues anticipated are calculated effectively to decrease them by diminishing the sources of taxation '.[1] As much as 70 per cent. of the deficit was to be met by increased taxation and only 30 per cent. by retrenchment. Attention was also drawn to the growth of central (especially defence) expenditure since 1914. The Finance Member, in defending his policy in the Assembly, pointed out that the increased import duties would encourage Indian industry. This was not regarded as a convincing plea at the time, but future events showed that, while import trade was hit by the heavy duties, internal production did receive an unexpected fillip.

While the Government of India were reluctant to cut down expenditure from revenue, they made a drastic cut in their capital expenditure and this reduced the country's purchasing power. During the three years ending with 1929-30, the capital outlay on Railways and the provincial expenditure on civil works amounted to about Rs 50 crores After 1930-1 all such expenditure was rapidly curtailed. Capital expenditure on the Railways nearly disappeared for a time, and even the provincial expenditure on civil works (charged to revenue) was reduced by one-half. In a country where the Government is the largest single employer, a reduction of public works expenditure from an annual total of Rs. 50 crores to Rs 12 crores was bound to have a very adverse effect on purchasing power In most European countries, public works expenditure was increased during the depression, with a view to maintaining purchasing power and adding to economic equipment at a low cost; and in most cases this meant unbalanced budgets. But the Government of India pursued an old-fashioned 'sound' financial policy and considered a balanced budget as of supreme importance.[2]

It must be admitted that the Government's adherence to an orthodox policy enabled them to restore financial equilibrium and to raise India's credit to a high level among the nations A solid barrier was erected against what the Finance Member called the 'slippery slope' of inflation. Many of the countries which went on spending money recklessly and kept their budgets deliberately unbalanced came to grief afterwards. The immediate result of the policy followed in India was unfavourable, but in the end it helped India to weather the storm successfully.

In spite of the energetic measures mentioned above, it was not possible to balance the budget for 1931-2; however, the threatened deficit of Rs 19½ crores was reduced to Rs. 11·75

[1] See *The Hindu*, 24 October 1931. See also Madras Chamber of Commerce Report (1931), p. 22.

[2] P. J. Thomas, 'India in the World Depression' in *The Economic Journal*, September 1935.

crores The emergency measures had their full effect in the following year, 1932-3, which closed with a surplus of Rs 1·55 crores It must be remembered that in each of these years liberal provision (nearly Rs. 7 crores) was made for the reduction and avoidance of debt, and therefore, so far as the budgetary income and expenditure were concerned, the Government not only paid their way even in the years 1931-2 and 1932-3 taken together, but also provided a net amount of Rs 3½ crores for the reduction of debt. As there was a further fall in the revenue under customs duties in 1933-4, it was decided to provide only Rs. 3 crores for reduction and avoidance of debt However, the Government were helped by an increase in the salt revenue resulting from the abolition of the salt credit system and by a comparatively tranquil political atmosphere.

Thus the financial crisis passed away and although the heavy taxation discouraged business and unbalanced the budgets of private individuals, the Government's budget closed with comfortable surpluses in the years after 1932-3, years when the most powerful nations in the world were struggling with unbalanced budgets The result was a great rise in public credit which enabled the Government to carry out successful conversion operations and reduce the burden of the public debt The Government's floating debt fell from Rs 84 crores in September 1931 to Rs 35 crores in 1933, and the gold and sterling backing of the rupee currency rose from 40 per cent in 1931 to 60 per cent. in 1933. No wonder that the 3½ per cent. sterling paper, which stood at about 43 in September 1931, rose to 89 by March 1933 and 98 by January 1935

It is but fair to state that this result was greatly due to the export of gold in copious quantities In prosperous times the yellow metal flowed freely into the country, and the peasant invested his savings in it When hard days dawned again, he had to part with some of it The abandonment of the gold standard by India put a premium on gold, and enabled the country to sell its gold at a profit In this way much gold flowed out week after week, and an amount valued at Rs 270 crores had left the country by February 1936 This huge figure appears disquieting at first sight, but we have to remember that it was not gold from the reserves of the Central Bank or the Government but barren metal which had been lying either in idle hoards or in the jewel-boxes of women The gold exports enabled the Government to obtain sterling in London for their needs, and thus not only to meet their dues in London, but to strengthen their reserves there. They have also enhanced the credit of India and have enabled the Government to borrow at low rates of interest and to carry out conversion operations effectively and profitably. The export of gold helped greatly in maintaining the currency, and it came in good time to compensate for the drying-up of purchasing power resulting from the catastrophic fall in prices. Many of our

politicians and even economists were uneasy about these gold exports, but some of the arguments used were based on a crude mercantilism. Between 1922 and 1931, India's net imports of gold came to about 43 million ounces; of this about two-thirds went back. But the gold that left the country was converted into mobile, purchasing power by the people. Gold, in Francis Bacon's words, 'is like muck, not good except it be spread'. The Indian ryot invested his savings in gold, and those reserves were intended for use in lean times When the lean times arrived in 1932, the hoards were turned to profitable use and this kept up the country's purchasing power But for this opening of hoards, the Indian people might have suffered more intensely as a result of the world depression

§4. *Effects of Protection on Revenues*

The fall in the central revenues from 1930 was no doubt due chiefly to the slump in prices, but other aggravating factors have also been in operation chiefly in regard to customs duties An important factor which has lately affected the customs revenue is the rapid growth of industrial production in India, which has resulted from the policy of discriminating protection adopted by the Government of India in 1923 Increased home production meant a falling off of imports and a reduction in customs revenue. Not only the specifically protective tariff, but also the high revenue tariff, have encouraged home production in recent years Matches are one example of this In 1921-2 India imported a large part of its matches and the customs revenue from matches was Rs 1·03 crores With the help of the revenue tariff the Indian match industry made rapid strides, and by 1928-9 the imports had largely declined and the customs receipts had fallen to Rs 24 lakhs In that year the tariff was made protective, since then imports have nearly disappeared, and with them also the customs revenue from imported matches

The growth of cotton manufactures has also been rapid in recent years. In 1900 about 80 per cent of the cotton piecegoods (i.e. cotton cloth made in mills) consumed in India came from outside (almost entirely from Great Britain). By 1913 the proportion of imports had fallen to 73 per cent During the War there was a decline in imports and the Indian mill production made rapid strides. However, up to 1929 about half the amount consumed annually still came from outside Since then Indian mill production has made rapid progress owing partly to the protective tariff, partly to the swadeshi spirit in the country, and partly also to the fall in the spending power of the masses which made imported goods from Britain too dear Even in 1929-30 44 per cent. of the total amount of cotton piecegoods consumed in India came from outside, but by 1933-4 the proportion had

fallen to 20½ per cent. This may be seen clearly in the following table :

Consumption of Cotton Piecegoods in India (million yards)

Year	Total imports	Mill production in India	Total	Percentage of imports
1904-5	2,288	678	2,966	77 1
1913-14 ...	3,159	1,164	4,323	73·1
1918-19	1,097	1,451	2,548	43 0
1921-2	1,080	1,732	2,812	38 4
1929-30 . ..	1,882	2,419	4,301	43·7
1930-1 ..	882	2,561	3,443	25·6
1931-2 .	753	2,990	3,743	20·1
1932-3	1,193	3,170	4,363	27·3
1933-4	761	2,945	3,706	20 5
1934-5 .	944	3,397	4,341	21 7
1935-6 ..	947	3,571	4,518	21 0

We have seen that, owing to financial exigencies, the duty on cotton fabrics was raised from 7½ per cent to 11 per cent. in 1921, and that in 1926 the countervailing excise duty was abolished In 1930-1, under similar pressure, the duty on cotton piecegoods was raised from 11 per cent. to 15 per cent with an additional 5 per cent on non-British goods and the supplementary budget imposed a surcharge of 25 per cent. on these rates. Thus protection was given to the Indian cotton mill industry, although as a temporary measure. Owing to the depreciation of the yen after 1931, the *ad valorem* duty on cotton piecegoods of non-British manufacture was raised from 31¼ per cent. (including surcharge) to 50 per cent., subject to a minimum specific duty of 5¼ annas per lb. on plain grey goods Owing to the further depreciation of the yen, the duty on non-British cotton goods was further raised from 50 per cent to 75 per cent. and the specific duty from 5¼ annas to 6½ annas per lb The protection thus granted to the Indian industry has been very effective, imports have fallen and, in spite of the large increases in the customs rates, the total revenue from imported cotton goods has steadily declined. It fell from Rs. 7·7 crores in 1924-5 to Rs. 4·46 crores in 1933-4, and was about Rs 3·5 crores in 1937-8.[1]

Even more striking has been the progress of sugar production in India and the decline in the customs revenue under that head. As late as 1925-6, hardly one-tenth of the sugar consumed in the country came from Indian factories; but in 1934-5 India produced as much as 74 per cent. of the total Indian consumption. Since then production has continued to increase, and today India is nearly self-sufficient in the matter of sugar. Such a rapid increase was only made possible by a policy of protection. The effect of this

[1] The revised estimate.

can be seen in the rapid decline in the customs revenue on imported sugar. In 1930-1 sugar imports brought in Rs. 10·68 crores, but in 1936-7 only Rs. 44 lakhs. It has thus become an insignificant item of revenue.

The following table gives the total production of sugar in India (excluding khandsari), total imports, total consumption, and total revenue received from imports :

Production of White Sugar
(Factories only)

Year	Total production in India (tons)	Import (excluding molasses) (tons)	Total available for consumption (tons)	Total revenue from sugar imports (crores of Rs.)
1925-6	91,399	723,000	814,399	6 48
1926-7	121,026	826,900	947,926	7 01
1927-8	119,739	725,800	845,539	6 51
1928-9	99,088	868,800	967,888	7 77
1929-30	110,918	939,600	1,050,518	8 10
1930-1	151,650	901,200	1,052,850	10 79
1931-2	228,120	516,100	744,220	8 70
1932-3	370,283	369,500	739,783	6 84
1933-4	515,059	201,200	776,359	4 72
1934-5	620,000	222,900	842,900	3 81
1935-6	926,800	261,300	1,128,000	3 24
1936-7	1,072,500	23,000	1,095,500	44

The same story is told by the iron and steel industry Before the War hardly any steel goods were made in India, and the value of the average annual imports in the years 1908-9 to 1912-13 amounted to Rs. 11·15 crores. During the War years, the imports fell, but they rose again after the War to Rs 21 crores (average of the five years 1918-19 to 1922-3) The subsequent progress of the Indian iron and steel industry has been rapid. The production of pig iron increased from about 340,000 tons in 1921-2 to 1,343,000 tons in 1934-5 Finished steel increased from about 120,000 tons to 627,000 tons during the same period. Imports have declined, and in spite of high tariffs the revenue from the duties on iron and steel has been falling. From Rs. 2·62 crores in 1928-9 it fell to Rs 1·45 crores in 1930-1 and Rs. 60 lakhs in 1936-7.

From 1930 Japan made a strong bid for the Indian market, and large quantities of low-priced Japanese articles flooded the country to the detriment of local industry To counteract this the Safeguarding of Industries Act was passed in 1933, empowering the Government to impose by notification such duties as they deemed fit on foreign imports the prices of which were so abnormally low as to endanger the existence of any Indian industry. Under this Act the Government put high specific duties on various articles and thus gave increasing protection to Indian industries.

§5. *New Taxes*

Thus several items of imports which formerly produced large revenues under customs have declined very rapidly in recent years. This tendency is bound to continue, as India has adopted a policy of protection Evidently protection is a double-edged sword if it is successful, the customs revenue will be lost, and if it is not successful, the consumer will have to bear the burden. Many Indian industries have prospered under protection, and India is therefore becoming more and more self-sufficient in regard to ordinary finished goods like cotton textiles, sugar, iron and steel, and cement But, from the point of view of the customs revenue, the result has been very unfavourable Not only the customs revenue but also the revenue from the Railways and other Government commercial agencies have been adversely affected by the change

Faced with this situation, the Government of India had to develop other sources of revenue and the choice naturally fell on excise When increased local production leads to a decline in customs revenue, it is only natural to try to make up for the loss of revenue by taxing the local produce Thus in 1934 an excise duty of Re 1-5-0 per cwt was imposed on factory-made sugar. At the same time an excise duty was imposed on matches also It ranged from Re 1 to Rs 2 per gross of boxes. Both these proposals created some opposition in the Assembly, but as each of them subserved certain popular subsidiary purposes, their success was assured In the case of the sugar excise, provision was made by legislation for fixing a minimum price for sugarcane with reference to the price of the finished product Thus the cane-grower will also benefit by the protection given to the industry. Further, a small part of the sugar duty is distributed among the provinces for the purpose of assisting the organization and operation of co-operative societies among the cane-growers so as to help them to secure fair prices, or for other purposes directed to the same end. As for the match excise duty, it was part of a plan for assisting Bengal as we shall see presently.

Other measures taken in 1934 for strengthening the Government's revenue position were an increase in the import duty on raw tobacco and a modification of the import duty on cigarettes with a view to placing a justifiable burden on the manufacture of cigarettes from imported tobacco and adjusting properly the relation between the import duty on raw leaf and the import duty on the finished article. These duties were expected to produce a revenue of about Rs. 30 lakhs The duty on silver was reduced from 7½ annas to 5 annas per lb. This was partly a measure of co-operation with the United States. The surcharges on customs, income-tax and salt remained, but the export duty on raw hides was removed, and this involved a loss of Rs. 5 lakhs.

By these measures it was expected to balance the budget for 1934-5 and to produce a small surplus of Rs. 10 lakhs, but owing to an improvement chiefly in the customs and excise, the actual surplus was expected to be Rs. 3·27 crores. Out of this, Sir James Grigg allotted Rs. 2·91 crores in the budget for 1935-6 for the following purposes. (1) Grants to provinces for schemes of economic development and improvement of rural areas (Rs. 1,00 lakhs); (2) development in tribal areas of the North-West Frontier (Rs. 25 lakhs); (3) development of broadcasting (Rs 20 lakhs); (4) civil aviation (Rs. 93 lakhs); and (5) special contribution to the Government of India's reserve in the Road Development Fund (Rs. 40 lakhs). The actual balance for 1934-5 turned out to be Rs. 4·95 crores, and therefore in the budget for 1936-7 the grant for rural development was increased from Rs. 1,00 lakhs to Rs 2,81 lakhs. Of this, Rs. 1,07½ lakhs was spent in 1935-6 (Rs. 92½ lakhs for rural schemes and Rs 15 lakhs for the co-operative movement) This was a distinct departure from the policy of leaving the provinces entirely to their own resources; after all, the financial prosperity even of the Government of India depends largely on the prosperity of the agriculturist

Thus the finances of the Government of India improved in spite of the restoration of the pay-cut and the fall in interest receipts. In the budget for 1935-6 the Finance Member was able to reduce the income-tax on incomes below Rs. 2,000 He also cut down the surcharge on income-tax from one-fourth to one-sixth, abolished the export duty on raw skins and reduced the import duty on silver, as well as the corresponding excise duty, from 5 annas to 2 annas per ounce In the budget for 1936-7 the tax on incomes below Rs. 2,000 was totally abolished, the surcharge on income-tax was halved (thus leaving only a third of the original surcharge), and the weight allowed on a one-anna letter was increased from half a tola to one tola.

The year 1935 witnessed a substantial improvement in the financial position of the Government of India. With the help of the copious gold exports the Government were able to make large purchases of sterling and thus strengthen the currency reserves in London. This also enabled the Government to reduce their borrowing rates in respect of both loans and treasury bills On the loans raised the redemption yield did not exceed 3·16 per cent. and the nominal rate of interest was 3 per cent., a rate which had not been attempted for 38 years. The interest on post office cash certificates was also reduced to 3 per cent., which is the lowest rate ever adopted since those certificates were first issued in 1917. The rate of interest on treasury bills also fell correspondingly. This strong financial position strengthened gilt-edged securities. It was no wonder that the 3½ per cent. sterling paper reached par early in 1936.

In view of this solid improvement, the Government was able

to establish the Reserve Bank. The Reserve Bank Act was passed by the Assembly in March 1934 and the Bank began to function from 1 April 1935. It is a shareholders' bank, with a majority of elected members on the directorate Subscriptions to the share capital were invited in March 1935 and, except in one or two provinces, the applications were far in excess of the quotas fixed, so that the shares had to be allotted by drawing lots. On 1 April 1935 the Bank opened its Issue Department and took over the management of the Currency from the Government of India. The assets of the Gold Standard Reserve were transferred to the Bank and were combined with the assets of the Currency Department On 1 July 1935 the Banking Department was opened and the scheduled banks deposited the required percentages of their demand and time liabilities On the same date, the Clearing House was transferred from the Imperial Bank to the Reserve Bank In future the Reserve Bank will be responsible not only for the regulation of the currency, but also for supplying the Secretary of State with sterling for his London requirements. This will obviate the need for the Secretary of State to maintain a larger balance in London than is necessary for his day-to-day transactions with the Bank of England, and will thereby lead to convenience and economy Thus India has at last established a Central Bank to manage and co-ordinate the currency and credit systems of the country.

§6. *Provincial Finances in Depression*

The financial position of the provincial Governments also deteriorated during the depression. Most of their revenues, in particular the liquor excise, stamps, and registration fees, were affected by the slump Liberal remissions of land revenue had to be given owing to the prevailing agricultural distress all over the country. Apart from the salary cut, efforts were also made everywhere to reduce expenditure, but time was needed for them to become effective In some provinces emergency taxation was levied, but such taxation was unpopular owing to the prevailing slump. In the provinces also, financial difficulties were aggravated by the civil disobedience movement; excise in all provinces, and land revenue in some, were thus affected by it. Earthquakes, floods and other unusual occurrences also added to the distress. Bombay and the United Provinces perhaps stood the depression best, owing to the rapid expansion of industry in them since 1930. In Madras, the Punjab, and the Central Provinces, the budgets have been balanced in spite of the severe agricultural distress. Bengal, Assam, and Bihar and Orissa were the worst hit by the depression. The comparative economic position of the provinces may be inferred to some extent from the following table showing the change in value of the main agricultural produce

of the different provinces (about ten of the principal crops have been included in this computation).[1]

Value of Agricultural Produce (about ten main crops)

Provinces	1928-9 Value in lakhs of Rs	1932-3 Value in lakhs of Rs	Change in value in lakhs of Rs	Percentage decrease from 1928-9
Madras	1,80,78	99,33	−81 15	−45 0
Bombay	1 20,52	83,86	−36,66	−30 4
Bengal	2,32,59	90,54	−1,42,05	−61 1
United Provinces	1,40,52	91,01	−49,51	−35 2
Punjab	76,78	48,53	−28,25	−36 8
Burma	63,38	29,45	−33,93	−53 5
Bihar and Orissa	1,35,17	56 55	−78,62	−58 2
Central Provinces	68,77	35,40	−33,37	−18 5
Total	10,18,51	5,34,67	−4,83,84	−47 5

It may be seen from the above that the precentage decline in the value of agricultural produce was lowest in Bombay and the United Provinces. The position of these two provinces will appear even more favourable, if industrial production is taken into account. Sugar and cotton piecegoods are two of the chief industries that have recently prospered under the protective tariff The United Provinces is the principal centre of the sugar industry, while Bombay leads in the cotton mill industry However, both Bombay and the United Provinces had to grapple with various difficulties. Owing chiefly to unwise capital expenditure in previous years, the finances of Bombay were not satisfactory even before 1929. When the depression began, there was a sudden shrinkage of revenue chiefly under excise, forests and stamps, and the budgets for 1930-1 and 1931-2 closed with rather large deficits The Government resorted to retrenchment as well as increased taxation. A searching scrutiny of the financial administration was carried out by Sir F Gauntlett, and large economies were effected in the cost of general administration. The additional taxation included a tax on electric current used for domestic purposes, an enhancement of the court fees, and an increase of stamp duties by an amendment of the Stamp Act. A tax was also levied on tobacco coming into the city of Bombay. As a result of these measures the budget was balanced from 1931-2

Another factor which affected Bombay's financial position adversely was the diversion of trade from Bombay to the ports of the Kathiawar States, which resulted in a fall in Bombay's trade. While the import trade of the rest of India was falling rapidly, the imports into the Kathiawar ports increased largely,

[1] *Review of the Trade of India* (1933-4), p. 10.

due apparently to the fact that some of those States are entitled under their treaties with the paramount power to keep the whole of the import duties themselves, even if the imported articles should represent more than the quantities consumed within their borders. There was a heated discussion on this subject in the Assembly in the budget session of 1934

The difficulties of the United Provinces were aggravated by the civil disobedience movement. The grant of special land revenue remissions seriously reduced the revenues of the province. Energetic action was taken by the Government to reduce expenditure and increase revenue The principal measure of additional taxation was the enhancement of registration fees, stamp duties, court fees and the annual licence fees on private motor vehicles. By these means the budget was balanced.

The effects of the general economic depression were most severe in Bengal, chiefly because of the tremendous slump in the prices of jute and rice, which are the principal crops of the province [1] While revenue under excise, stamps, forests and registration fees was shrinking rapidly, increased expenditure had to be undertaken for dealing with the terrorist movement and relieving sufferers from floods and other abnormal occurrences. From 1930-1 the annual budget closed with a deficit of about Rs. 2 crores on an average and the debt of the province went on accumulating. Some measures of retrenchment were indeed carried out, but the additional expenditure on police and jails swallowed up these economies. The revenue of the province after 1931-2 fell below the level of even that of 1921-2, and the progress in the nation-building services was very slow. The Government of Bengal imposed additional taxation, which increased its revenue by Rs 24½ lakhs. But various circumstances prevented any large measure of additional taxation, and that provincial Government continued to complain bitterly about the injustice of the Meston Settlement

Bihar and Orissa was one of the poorer provinces of India Although in population it came next to Bengal, the United Provinces and Madras, its revenue was only about Rs. 5 crores. With 75 per cent more people than Bombay, this province had only half the revenue of the Western Presidency In 1931-2 its revenue fell by about half a crore, but the expenditure remained high, and there was a deficit of about Rs. 80 lakhs Certain economies were then put through, and conditions improved in the next year. The Government reformed the excise system by substituting the auction system for the sliding scale system In January 1934 the difficulties of the province were increased by the severe earthquake, which inflicted severe losses on both the Government and the people.

[1] Budget Statements for 1932-3 (Mr A Marr), and 1933-4 (Mr J A. Woodhead).

Financial conditions in Assam and in the North-West Frontier Provinces were also bad. Serious floods in Assam and the terrible Quetta earthquake in the Frontier Province aggravated their difficulties.

§7. *Succour to the Provinces*

As has already been explained, the central Government left the provinces to shift for themselves from 1921, and even to make grants to them was regarded as contrary to the principles underlying the Act of 1919. The entreaties, grumblings and protests of the provinces had little effect on the central Government, and no change took place except that the provincial contributions were remitted. But when, during the depression, the provincial Governments piled up deficits year after year, the Government of India reconsidered the position, and having regard to the fact that as the banker to the provinces they kept their balances and provided funds to meet their capital expenditure and deficits, it was decided to succour the provinces in their need The Government of India were themselves in financial difficulties for some years from 1930, but when their finances improved, inaction could no longer be justified In the meantime the Bengal representatives at the Round Table Conference had been carrying on a very effective propaganda for assistance to Bengal and the need for some special help was recognized in the White Paper In these circumstances the Government of India found that action could not be delayed any longer

The claim put forward by Bengal was that the export duty on jute should be made a provincial source of revenue The Taxation Enquiry Committee considered the question of giving a share of this revenue to the provinces, but rejected it Jute being a monopoly of India the incidence of the export duty was believed to be on the foreigner, and this was used as an argument against handing over the export revenues to the provinces producing jute. At the Round Table Conference, Sir P C Mitter criticized this view, on the ground that jute had ceased to be a monopoly, and that even if it were, there was no special reason why it should be a Federal head of revenue.[1] Various theoretical objections were urged against giving the provinces a share in customs duties, but in view of the chronic deficits in Bengal it was considered advisable to enhance its revenue, and giving a share in the jute export duty was found to be the least objectionable means of doing it. This decision was first announced in the White Paper, and when the Government of India had agreed, provision was made accordingly in the budgets for 1934-5. The total proceeds of the export duty on jute amounted to Rs. 3·80 crores; of this one-half was

[1] Report of the Round Table Conference (Session II, 1931), 1932, pp. 1315-6

handed over to the jute-growing provinces after deducting Rs 1 lakh to cover the cost of collection. Of this Bengal obtained Rs 1,67 lakhs, Bihar and Orissa Rs. 12½ lakhs and Assam Rs. 9½ lakhs.[1] To make up for the consequent loss to the central revenues, an excise duty on matches was levied, as mentioned above

Bihar and Orissa was in need of further assistance owing to the serious damage done by the earthquake Immediate relief to sufferers had been given by the provincial Government and private organizations, but the rebuilding of Government offices and towns was too large a matter to be undertaken without help from the Government of India The damage to Government buildings was estimated at Rs 1 crore, and the loss of property by local bodies in Bihar—roads, bridges, schools, dispensaries, etc.—was estimated at another crore Extensive damage was incurred by private individuals also houses and shops and factories were wrecked and wide expanses of agricultural land were rendered unfit for cultivation The Government of India recognized it their duty to aid the province at this time of great need Fortunately there was an estimated surplus of Rs 1·29 crores for the year 1933-4, and it was proposed in the budget for 1934-5 to transfer it to a special fund from which assistance might be given to the provinces, especially to Bihar The Government of India undertook to bear the whole cost of restoring the property and finances of the local bodies and took measures at their own cost for dealing with the sugarcane crop They also offered to bear half the cost of restoring Government buildings and other public works, providing the funds by raising a loan [2]

In the budget for 1935-6 a more avowed and comprehensive scheme of grants was put forward by Sir James Grigg The help rendered to the provinces in 1934-5 was due to exceptional circumstances, and Sir George Schuster took pains to make it clear that the help to Bengal was provisional and that the grant made to Bihar and Orissa was due to the dire calamity that had befallen that province But Sir James Grigg took a long step forward in 1935-6 by making grants to the provinces for rural development, improvement of the co-operative movement, road-making in backward areas and other definitely provincial (and transferred) subjects In the budget for 1936-7, Sir James carried this policy further and made additional grants to the provinces from the Rural Development Fund for financing schemes of agricultural and animal husbandry research, malaria control, improvement of the small-scale woollen industry and the development of broadcasting.

The justification for this course was that, owing to the financial stringency resulting from the depression, most provinces had been obliged to put off urgently needed schemes of rural improvement.

[1] Budget Statement (1934-5), pp 25-8. [2] ibid , pp. 28-30.

Two conditions were imposed on the utilization of the grants: namely, (1) that the grant must be spent on schemes approved by the Government of India and calculated to improve the economic position of the people, and (2) that it should only be devoted to schemes which the provincial Government would not otherwise have been able to undertake in the immediate future. The grants for rural improvement were distributed in proportion to the rural population of each province. They would not lapse if not spent within the financial year.

The special needs of backward areas were not neglected. In the budget for 1935-6 a grant of Rs. 40 lakhs was made to the reserve of the Road Development Fund (a fund intended for road works of special importance, particularly in needy parts of the country), and in the distribution of this grant Assam, as 'the most necessitous of all the provinces', was generously treated. A further sum of Rs. 25 lakhs was also set aside for schemes of road development in the tribal areas of the North-West Frontier Province. This policy was continued in the budget for 1936-7. Central aid was also needed to set the new provinces of Sind and Orissa on their feet. To begin with, a sum of Rs. 45 lakhs was allotted to a special fund for assisting these two provinces to meet their expenditure on the rebuilding of old, and the provision of new, office buildings. As Sind already possessed a considerable part of the buildings required, Orissa was given a larger share (Rs. 27½ lakhs). In addition to this they were also promised subventions for supplementing their revenues. The rebuilding of Quetta has also been taken up by the central Government. Besides spending about Rs. 80 lakhs in 1935-6 for relief, temporary housing and salvage, plans for the rebuilding of Quetta at a cost of about Rs. 7 crores were also taken up by the Government. This expenditure will be spread over seven or eight years and the annual outlay will be about a crore.

Thus, in the exceptional circumstances of the economic crisis, the Government of India recognized the propriety of making grants to the provinces for special purposes and distributed such grants partly according to needs and partly according to population. It was feared by some that these grants might degenerate into the old 'doles', but the Finance Member took special care to avoid undue interference in matters which were primarily of provincial concern.[1] But it is well to recognize that the Government of India which found the money and interested themselves in certain specific lines of development, should also have some control over the choice of schemes, and the mode in which they are to be carried out. Such supervision is in the best interests of the people, and this is borne out by the experience of even full-fledged federations.

[1] Budget for 1936-7.

PART VII

THE BEGINNINGS OF FEDERAL FINANCE

CHAPTER XXIX

FEDERAL FINANCE. THE INDIAN STATES

§1. *The Idea of Federation*

ONE conclusion which would suggest itself even to the casual observer is that the most suitable form of government for India is federalism. According to students of constitutional theory, the principal condition for the emergence of federalism is that a country must have a desire for union but not a desire for unity [1] In other words, a country must feel the need for a unified policy in regard to foreign, economic and other matters of common interest, but the regional diversities must be too great for a unitary constitution to be possible Therefore, apart from the Central (or Federal) Government dealing with matters of common interest, there must be separate Governments in the different states, cantons or provinces. This duality of authority is the essence of federalism. The need for such a duality may not be permanent A country whose territory is not extensive and whose people are fairly homogeneous may need federalism in certain circumstances, but when those circumstances disappear federalism may be replaced by a unitary government This is what happened lately in Germany, which needed federalism when the old ruling dynasties were in power, but ceased to need it under the Republic. Even a country with an extensive territory may do without federalism if the people of the different territories are not divided by any important divergence of interests. This is more likely if the economic interests of the various territories do not conflict and if there is a powerful demand for a united economic policy Such a situation has lately been developing in the United States Nevertheless, a much smaller country like Switzerland may long retain its federalism owing to racial and geographical diversities. Federalism among the Swiss Cantons is hoary with age like those picturesque hills on which the hardy Swiss people live, and it may survive many of the larger federations of today. *Auf den Bergen ist Freiheit*

The essential conditions for federalism are fulfilled in the case of India to a remarkable extent. It is true that British India was ruled on a unitary basis from 1833, but that was because the whole administration was systematically controlled from Whitehall But the conditions of the country were (and are) very unsuitable for unitary rule; hence the bitter grumblings from

[1] Dicey, *The Law of the Constitution* (1926), p. 137.

the provincial Governments which have long marred the harmony of inter-governmental relations in India. Under autocracy, whether Mauryan, Mogul or British, India can be ruled on a unitary basis, but when responsible government dawns, India can only be held together in a federal system. The circumstances of the country and of the people make it impossible for a single responsible Government to administer the country. The diversities of India—racial, religious, linguistic—are much more pronounced than in any other country which is now under unified rule. '*L'Inde est un monde*' said a French savant. 'It covers the whole space between barbarism at one hand and civilization at the other', said Lord Curzon. Perhaps even the continent of Europe does not show such divergence of colour and culture as India does. Lord Bryce, travelling in this country in 1889 found 'great difference between North-West, North-East, Far-South and Centre'.[1] Such communities as Bengalis, Marathas, Punjabis and Tamils are distinctly like the nationalities of Europe; perhaps the differences are even more marked.

At the same time there is a fundamental unity underlying all this diversity. India is clearly a distinct geographical unit. 'In no part of the world, unless perhaps in South America, are the physical features on a grander scale, yet nowhere are they more simply combined into a single natural region.'[2] The past history of India has also produced a tradition of united India, *Bharata-Varsha* as it is called; this is based on the memory of past unified rule over most parts of India and can be traced from the Mauryas in the third century B.C. There has gradually evolved a distinct Indian type—in culture, art, social usage and literary tradition. As a result the sub-continent has attained a unity 'sufficient to justify its treatment as a unit in the history of the social, religious and intellectual development of mankind'.[3] But this cultural unity did not become political unity of any kind except when powerful kings like Asoka or Akbar ruled. After every attempt at unified rule came a period of anarchy. The eighteenth century witnessed such a dissolution of political life and there followed a struggle for supremacy. By 1833 a large part of the country came under British rule, and soon a unified government held sway over all British India. The British administrative government over all British India. The British administrative system with the district as its unit knit together the disjointed portions of the country and pressed the heterogeneous elements into a unified whole. As mentioned in Chapter VII, it was like a steel frame holding together the broken limbs and mangled bones of a human body. No doubt it has been unpleasant, but it has achieved the most meritorious task of unifying a country which holds a fifth of the human race. It is the first time

[1] In a letter to the author, dated 9 April 1921.
[2] Sir Halford Mackinder, *Cambridge History of India*, vol. I, p. 1.
[3] V. A. Smith, *The Early History of India*, p. 5.

in the world's history that such a large and heterogeneous population has attained political unity. Whatever the degree of unity so far achieved, it is certain that India cannot be held together under a unitary constitution except on an autocratic basis India is not a nation in the sense in which France or Germany is. It is a 'multi-national' entity and only federalism or autocracy can hold it together. A multi-national state may have certain weaknesses but it has also great advantages, as Lord Acton has pointed out.[1]

§2 *Obstacles to Federation*

In spite of the many circumstances favouring the development of federalism in India, two serious difficulties have stood in the way. *Firstly*, Imperial rule and federalism are incompatible. So long as the authority of the Governments in India came from above and did not come from the people, centralization was unavoidable Therefore, until responsible government became a fact, federalism (even provincial autonomy) was out of the question *Secondly*, if India is to be a Federation, it must be the whole of India and not British India alone. The Indian states comprise two-fifths of the area of India, and contain over a fifth of its population

India is a geographical unit, and no walls separate 'Indian' India from British India Though they are politically separate, the Indian states have intimate links, ethnic and economic, with the adjoining British Indian provinces, and the territories of many of them lie interspersed with British India Any large change, political or economic, in British India is bound to affect them, and no great economic advance is possible for India unless the states move to some extent along with British India [2]

So long as all the Governments in India were controlled by the Home authorities, it was possible for the central Government to obtain co-operation from the Indian states in securing certain common interests, but the Ruling Princes cannot be expected to continue the same attitude to a self-governing British India Their allegiance is to the Crown, and a Government of India controlled by the people would evidently stand on a very different footing in its relations with the Princes from one directed from Whitehall

Of the two obstacles mentioned above, the first was largely removed by the Government of India Act of 1919 The principal object of that Act was to give the provincial Governments a large degree of autonomy in finance and general administration.

[1] *History of Freedom and other Essays* cf Delisle Burns, *Political Ideals*.

[2] 'India is in fact, as well as by legal definition, one geographical whole The integral connexion of the States with the British Empire not only consists in their relations to the British Crown, but also in their growing interest in many matters common to the land to which they and the British Provinces alike belong' *Montagu-Chelmsford Report* (1918), para 296.

They were given independent financial resources, and in this respect the relation between the central Government and the provinces became even more federal than in many federal constitutions No doubt there was still a good deal of central control in the administration of the finances, since in regard to 'reserved' subjects the provincial Governments were still under the control of the central Government In regard to the transferred subjects, however, the provinces were released from the control of the Government of India and the Secretary of State by the Devolution Rules made under Sections 19 A and 45 A of the Act of 1919. But this relaxation of control was by no means complete; if the administration of any of those subjects were found to be unsatisfactory, the Government of India could intervene and even remove a transferred subject from the control of the Provincial Legislative Council Thus the constitution set up in 1920 was still essentially unitary, although it was tending towards federalism; a further step was necessary if it was to become really federal.[1]

Nor was the second obstacle seriously tackled No doubt the time was not ripe in 1919 for bringing the Indian Princes into a common political system for all India There were very great difficulties in the way All that the Reforms of 1919 did was to establish a Chamber of Princes with certain consultative and advisory functions No doubt the necessity for a further advance was realized, and the future goal was clear to those who devised the Constitution of 1919 Edwin Montagu and Lord Chelmsford were convinced that the complete fulfilment of the announcement of August 1917 required that the British Indian provinces should be brought into a suitable relationship with the Indian states. 'Our conception of the eventual future of India' they wrote 'is a sisterhood of states, self-governing in all matters of purely local or provincial interest, in some cases corresponding to existing provinces, in others perhaps modified in area according to the character and economic interests of their people Over this congeries of states would preside a central Government, increasingly representative of, and responsible to, the people of all of them; dealing with matters, both internal and external, of common interest to the whole of India; acting as arbiter in inter-state relations and representing the interests of all India on equal terms with the self-governing units of the British Empire. In this picture there is a place also for the Indian states.'[2] However, the joint authors were against any attempt to force the pace 'All that we need or can do', they wrote, 'is to open the door to the natural developments in the future'.

In November 1927 the Statutory Commission was appointed, with Sir John Simon as Chairman, to inquire into the working

[1] Sir Frederick Whyte, *India a Federation?*, pp. 296-300; *Simon Commission Report*, vol. I, pp. 232-8.
[2] *Montagu-Chelmsford Report* (1918), p 220.

of the Reforms of 1919 and the desirability of a further advance in responsible government At an early stage in its inquiries the Commission became 'convinced of the impossibility of continuing to look at one half of India to the exclusion of the other', and came to the conclusion that 'the ultimate constitution of India must be federal'. But the Commission found various obstacles to the immediate realization of the idea. Suggestions were indeed made in regard to the machinery and methods needed for initiating a political process which might eventually lead to federation. As an immediate measure they recommended the establishment of a Council for Greater India, containing representatives of the states and members representing British India. This Council was to have consultative and deliberative functions in regard to a scheduled list of 'matters of common concern', namely customs tariff, salt tax, other taxes affecting Indian states, railway policy, air communications, trunk roads, posts and telegraphs, wireless, opium policy, Indians overseas, matters connected with commerce, banking and insurance so far as they affect both the states and British India, and matters arising in connexion with India's membership of and participation in the League of Nations.[1]

The Government of India dispatch[2] on the Simon Report was even more sceptical in this respect. It accepted the goal of federation, but held that the time had not yet come when the general body of Indian states would be prepared to take a step so far-reaching in its character as entering into any formal federal relationship with British India.

§3 *Princes' attitude towards Federation*

While the Simon Commission was carrying on its inquiries, the political situation in India was going from bad to worse. Various attempts were made to alleviate political discontent, and finally in the autumn of 1930 the Round Table Conference was summoned in London, and to this not only British Indian representatives but the leading Indian Princes were invited In the plenary session of the Conference the Maharaja of Bikanir sprang a surprise when he expressed his firm conviction 'that the states would make the best contribution to the great prosperity and contentment of India as a whole in a federal system of Government composed of the states and British India' Two days later the Maharaja of Patiala, then Chancellor of the Chamber of Princes, confirmed this view and declared that federation was in his opinion 'the quickest method of achieving India's enhanced status and dignity'. These utterances produced a great effect The Federal

[1] *Simon Commission Report*, vol. II, pp. 203-5.
[2] Government of India Dispatch, 20 September 1930, p. 11.

Relations Committee was appointed soon afterwards to examine the whole problem.

These declarations came to many people as a surprise, but not to those who had been following the trend of opinion in the Indian states. The political and economic unification of India had reached a stage at which any large political change in British India was bound to have serious repercussions on the Indian states. The financial policy of British India restricted the rights of the states in many ways. They had several grievances in regard to customs, salt tax, excises, and posts and telegraphs. The Government of India collect customs at the ports and land frontiers, but the burden falls equally on the people of the states as on those of British India Maritime states do indeed retain the right to levy customs, but that right has been restricted in many ways. Most inland states levy duty on goods coming in, or going out, of the country, but they are not allowed to levy transit duties on goods passing through their territories, although the central Government levy transit duties on goods passing through British territory from a seaport to an Indian state.[1] The excises levied in British India on salt, petroleum, intoxicants, kerosene, silver, etc., are borne partly by the people of the Indian states. In connexion with these excises the Government of India sought and obtained the states' co-operation, but the advantage is largely one-sided. The states are expected to follow the excise policies of the adjoining provinces and thus prevent smuggling; but if they raise their duties the adjoining provinces are not bound to do the same. Thus British India levies a large contribution from Indian states by means of indirect taxes over which the latter have no control. The Indian states claim that these impositions severely restrict their taxable capacity and many of them complain that on that account their resources are inadequate for carrying out policies of economic development When the customs tariff was low, the customs duties were not an unduly heavy burden on the Indian states; but when it was raised to a high level after the War, the states began to feel that the duties were a severe burden No doubt the protective duties gave scope for starting new industries, but in most of the states the people were not in a position to avail themselves of such opportunities

The dealings of British India with the states in respect of its salt and opium monopolies bring out in bold relief the nature of the grievances of the states The Government of India raise a large revenue from the salt monopoly This was facilitated by entering into agreements (1871-80) with the salt-producing states, against which customs barriers had previously been maintained. This has involved a large loss for the states and the compensation given has been far from adequate. The states lost all control over

[1] *Report of the Indian States Committee* (1929), pp. 41-4.

the production and price of salt, and even the states in whose territory salt was produced and which were allowed a certain amount of salt for consumption had to raise or lower the price within the state territory to suit the needs of the British Indian budget. In the case of opium a monopoly has been maintained in both the internal and the external markets, and the opium-producing states in Central India and Rajputana have had to leave their superior opium resources undeveloped in the interests of the revenue of British India. This evidently restricts the resources of the states and is a considerable hardship for their subjects.

The Indian states have also certain grievances in regard to British Indian commercial undertakings such as railways, posts and telegraphs, and irrigation works. The states gave concessions freely for British Indian railways, and the construction of railways in their territory necessitated their giving up transit duties which they had been levying from time immemorial. Generally, the alignment of British Indian railways through Indian states was made without reference to the economic life of the states and has, in some cases, led to a dislocation of their economic life. Thus while railways were used to increase the British Indian revenues in several ways, they involved the states in losses of several kinds. The same is more or less true in the case of postal operations and irrigation works also. Similarly the riparian rights of several states were restricted when the interests of British Indian irrigation works required it, and thus the interests of agriculturists in British India were given precedence over those of Indian states.

All this made the Indian Princes feel that their rights were subordinated to the financial exigencies of British India, and this caused considerable dissatisfaction among them. A suggestion for a customs union was drawn up during Lord Reading's viceroyalty, involving (1) the adoption of a common tariff to be administered by officers of the Government of India, (2) the abolition of inland customs, (3) the division of customs revenue according to population, and (4) the consultation of states' representatives for the determination of policy. But the states were unwilling to enter into such a customs union on various grounds.[1] When the Indian States Committee was appointed in 1928, with Sir Harcourt Butler as Chairman, the Princes were able to ventilate their grievances, but the Committee, while agreeing that some real grievances existed, were unable to suggest a remedy and concluded that an exhaustive inquiry was necessary.

Many of the states realized that the only effective way of remedying these grievances would be to enter into a federal relationship with British India, so that they might secure a voice in the formulation of policies on matters of common concern. Some of the Princes feared that a closer connexion with British

[1] Report of the Indian States Committee (1929), p. 43.

India would necessitate their giving up some of the privileges they had been enjoying; others, on the other hand, thought that by entering into a federation with British India they could get a share in the control of all-India policy and thus increase their real power. Thus in July 1928, the Maharaja of Patiala, then Chancellor of the Chamber of Princes, stated in a speech in London that he looked forward to 'something like a Federation for India', meaning thereby 'a machinery which will enable British India and Indian India to meet together at the top and to discuss jointly in a manner consonant with the interests and importance of each all policies and proposals which affect India as a whole'.[1] This is the same idea as he and the Maharaja of Bikanir put forward later at the Round Table Conference, those who had been following the trend of opinion among the Princes did not find it at all surprising

§4 *Project of Federation*

Thus the need for some kind of federation was admitted, but difficulties arose when the question was tackled by the Federal Relations Committee set up by the Round Table Conference Thorny problems of paramountcy had to be settled and differences of opinion arose as to whether the Princes should join the federation in a body or singly The Princes were naturally anxious to safeguard their internal authority and treaty rights There were prolonged discussions on these subjects at successive sessions of the Round Table Conference Eventually the conclusion was reached that, as the Indian states lay outside the jurisdiction of the British Parliament, and as no Act of Parliament could make them members of the Federation against their will, all that an Act could do was to prescribe a method whereby a state could accede to the Federation, and specify the legal consequences which would result from its accession Each ruler who wishes to accede will therefore signify to the Crown his willingness to accede to the Federation by executing an Instrument of Accession, specifying the powers and the jurisdiction which may in future be exercised by the Federal authorities

Thus the main lines of the Federation became fairly clear The change involved two distinct operations firstly, the grant of provincial autonomy in British India, and secondly, the establishment of a new relationship between British India and the Indian states One is a process of devolution and the other one of integration In the one case, provincial Governments which have been functioning hitherto under the direction and control of the Government of India (itself an agent of the Secretary of State) would by a direct grant from the Crown be made autonomous units of a Federation. Expressed in legal language, the Crown would resume

[1] Proceedings of the East India Association, 1928.

into its hands all the rights, authority and jurisdiction hitherto vested in the Secretary of State, the Governor-General in Council and the provincial Governments and Administrations, and redistribute them between the Government of India and the provinces. In the other case, the Indian states which now enjoy almost complete internal autonomy must surrender certain of their powers and jurisdiction to the new Federation [1]

But the Federation of British India with Indian states is not to be a mere alliance or association for limited objects, but, as stated in the White Paper on Indian states, it is to be 'an organic union between the two, with the Federal Government and Legislature exercising, on behalf of both, the powers vested in them for that purpose' [2]

Provision for the establishment of such a Federation was made in Part II, Chapter I, of the Government of India Act (1935) This Act was the result of many years' deliberations and it is based on the accumulated experience of many existing Federations, so far as such experience can be applied to the peculiar conditions of India We are here concerned only with the financial aspect of the Act We will first deal with the financial provisions as they relate to the states, and then proceed, in the next chapter, to consider the financial relations between the Federation and the provinces.

§5 *Federal Finance in Relation to the States*

The most formidable difficulties that confronted the Round Table Conference in regard to a Federation of all India were financial As has been mentioned before, the Princes had been making certain contributions, direct and indirect, to the revenues of British India, and the Butler Committee's inquiries disclosed that some of their claims for relief in this regard were justified One essential principle of a federation is that all the units of the federation must contribute on a uniform basis to the federal resources Therefore a careful inquiry into the financial relations between British India and the states was essential before any definite federal scheme could be put forward The Federal Structure Sub-committee laid down certain general principles in this matter, but left the details to be worked out after inquiry in India, by a Committee under the chairmanship of Mr J. C C. Davidson That Committee toured India in 1932, and conferred with the Princes. The object of the inquiry was to estimate the contributions made by the states and the value of the immunities enjoyed by them, and to determine how these should be adjusted to fit in with an equitable scheme of federal finance.

[1] *Report of the Joint Select Committee*, vol I, Part I, pp 85-8.
[2] See also Secretary of State's Dispatch, 14 March, 1935.

The contributions made by the states to British Indian revenues were (A) direct contributions in the form of tributes and subsidies imposed by treaties, engagements or sanads, etc., and (B) indirect contributions

A Direct contributions were either (1) subsidies or tributes, or (2) value of territories ceded in the past in return for guarantee of protection Subsidies or tributes were paid in cash and amounted to Rs 74 lakhs annually The Peel Sub-Committee considered the tributes and subsidies to be of a feudal nature and recommended that such payments as were in excess of 5 per cent of the total revenue of the state should be immediately remitted The Davidson Committee found that all the payments were not of a feudal nature and classified them under the following categories .

(1) Payments in acknowledgment of suzerainty, including obligations to aid and protect on the one side, and to give subordinate co-operation on the other,
(2) Payments in commutation of obligations for the provision of a 'State-contingent force' or other form of military assistance,
(3) Payments for the maintenance of a British subsidiary force,
(4) Payments fixed on the creation or restoration of a state, or on a re-grant or increase of territory (including annual payments for grants of land on perpetual tenure and for equalization of the value of exchanged territory),
(5) Payments for special or local purposes, such as the maintenance of local corps, police, etc .
(6) Contributions originally paid to another state, but subsequently acquired by the British Government by conquest or lapse of the original recipients, and
(7) Contributions acquired by treaty

The first five were imposed or negotiated by British authority, while the last two were transferred or inherited from previous suzerain powers or overlords Although the Davidson Committee maintained that the contributions were not generally of a feudal nature, it recommended on other grounds that contributions in excess of the immunities enjoyed by each State should be abolished Contributions in excess of 5 per cent were to be remitted immediately (thus giving a relief of Rs 12 lakhs a year) and of the rest a moiety was to be extinguished at the latest in ten years after the establishment of the Federation and the whole within twenty years [1]

The revenue obtained by the Government of India from

[1] Report of the Indian States Enquiry Committee, Financial (1932), pp 30-3

territories ceded to the Crown by the Indian states in return for specific military guarantees came to Rs. 3·79 crores in 1931-2.

B. By' 'indirect contributions' are meant the amounts accruing to the revenues of British India from the people of Indian states under the heads of customs, salt tax, income-tax, etc. Various estimates have been made of the amount of such contributions.

Customs —The computation of the share of the states in the customs revenue of India is complicated by the existence of certain maritime states which collect their own customs and by the uncertainty about the consumption of imported goods in different parts of India It is believed that the consumption of imported goods is proportionately smaller in Indian states than in British India. A special committee of the Government of India in 1930 estimated the share of the states to be 14 per cent of the net customs revenue Others put it at higher percentages[1] If the former percentage is accepted, the states' contribution must have been about Rs 7 crores in 1935

Excise —Under this category must be considered the provincial excises on alcoholic liquors, drugs and narcotics and the central excises on motor spirits kerosene, silver, sugar, matches and steel ingots According to the special committee mentioned above, the share of the states in the provincial excises was about Rs 15 lakhs and in central excises Rs 47 7 lakhs The share must have increased since then, but no exact calculations can be made

Salt —In regard to salt a computation of the incidence per head of the total revenue would yield fairly satisfactory results According to the committee, the contribution of the states to the central salt revenue was Rs 89 lakhs Salt revenue has since increased and for 1935-6 the states' share would be about Rs 1·58 crores (The allowance made for cost of collection is 20 per cent)

Railways and currency profits —In 1930, the states' contributions to these items were about Rs 50 lakhs and Rs 47 lakhs respectively, but the contribution from the first item nearly disappeared during the depression years, and that from the second item has decreased with the establishment of the Reserve Bank

The total 'credits' must therefore be over Rs 10 crores excluding the expenses of the Indian states' military forces Against these credits, we must place the 'debits', which are principally immunities enjoyed by the states under customs, salt, currency and coinage, posts and telegraphs, etc Several states levy a large revenue by means of inland customs, amounting to a total of about Rs 4½ crores The maritime states—Travancore,

[1] Wajid Khan puts it at Rs 11 65 crores for 1932-3 (*Financial Problems of Indian States under Federation*, pp 27-8) According to D'Souza, Mysore alone claims to pay Rs 97 lakhs (*Financial Problems of Indian States*, p 33)

Cochin and the Kathiawar States[1]—levy their own sea-customs under certain agreements with the Paramount Power. The relations of British India with Travancore and Cochin in this matter are governed by the Inter-portal Convention of 1865, by which those two states adopted the British Indian tariff (with certain exceptions) and agreed not to levy any import duty on goods coming from British India (with certain exceptions) in consideration of a similar undertaking by the British Government.[2] With the opening of the new harbour at Cochin, fresh problems have arisen and some of them were tackled by the Davidson Committee. The Kathiawar ports have been enjoying greater privileges, and when the British Indian tariff was recently increased they were able to secure a much larger import trade and customs revenue. The Davidson Committee examined this thorny problem and recommended for consideration a compromise arrangement under which those states would be enabled to retain the revenue from duties on goods imported through their own ports for consumption by their own subjects.[3]

The immunities enjoyed by the states can be more accurately assessed than the contributions made by them. The following is the estimate of the Davidson Committee:

	Rs.
Customs	1,82,42,000
Salt	46,06,057
Currency and Coinage	17,00,000
Posts and Telegraphs	10,27,025
Total	2,55,75,082

The Joint Select Committee of the British Parliament on the Government of India Bill gave its general approval to the Davidson Committee's recommendations in regard to the gradual abolition of contributions which were in excess of the value of immunities. They also emphasized the need for freedom of trade within the Federal territory. 'Internal customs barriers', said the Committee 'are in principle inconsistent with freedom of interchange of a fully-developed Federation and we are strongly of the opinion that every effort should be made to substitute other forms of taxation for these internal customs'.[4] It was admitted that their immediate abolition would involve deficits in the states' budgets, but the Committee pointed out that in any case 'the accession of a state to the Federation should imply its acceptance of the principle that it will not set up a barrier to free

[1] Namely, Janjira, Baroda, Bhavnagar, Cambay, Cutch, Junagadh, Mongrol, Morvi, Navanagar, Porbandar and Sawantvadi.
[2] Papers on Indian States Development (1931), pp. 93-4.
[3] Report of the Indian States Enquiry Committee (Financial), 1932, pp. 140-1.
[4] Report, p. 169.

interchange so formidable as to constitute a threat to the future of the Federation' The Committee also agreed that a maritime state which has a right to levy sea-customs should be allowed to retain only so much of the customs duties as is properly attributable to the dutiable goods consumed in the state They recognized that treaty rights might not make it possible in all cases to attain this ideal, but they doubted the advisability of admitting into the Federation states that insisted on such treaty rights

The Government of India Act (1935) has, in Sections 146-50, given effect to the principal recommendations of the Joint Select Committee In the case of states entering the Federation, cash contributions will be remitted by instalments spread over a period not exceeding twenty years (Section 147) All contributions from a state to the Federal fisc will be set off against the state's share of any revenues which have to be distributed to the Federal Units (Section 149) The principles laid down in the Act are largely in conformity with federal practice, and can be made the basis of a fair financial settlement between the Federal Government and the states. The constitutional framework for the building up of an Indian Federation has thus been devised

CHAPTER XXX

FEDERAL FINANCE—GOVERNORS' PROVINCES

§1 *Provincial Autonomy and Federation*

MOST of the existing Federations have resulted from an agreement by states previously independent or autonomous to surrender a definite part of their authority to a new central organism But India, on the other hand, is being converted from a unitary state into a Federation Only the first steps towards provincial autonomy were taken under the Act of 1919, and the provinces continued to be subject to the administrative and legislative control of the Government of India although a good deal of authority was devolved on them under the statutory rule-making power of the Governor-General in Council The transformation of such a state into a Federation necessarily involves a twofold process namely, the creation of autonomous Units, and combining them into a Federation The grant of provincial autonomy is the fulfilment of the goal set before India in 1919, but provincial autonomy without a change in the central constitution might endanger the unity of India by giving too much play to centrifugal forces Hence the need for a new central organism—an All-India Federation with a representative legislature capable of binding the autonomous Units together [1]

The grant of provincial autonomy implies that the provincial Governments will be more responsible to their Legislatures in future The working of the Montagu-Chelmsford Reforms for a decade gave convincing proof that without fuller responsibility in the provinces further progress in social reform and economic services was not possible Only a Government responsible to the people of the country could undertake and enforce effective legislation for the cure of virulent social and economic ills Therefore Parliament decided that the provincial Governments should be fully responsible to their Legislatures in regard to social and economic policy, subject to certain safeguards necessitated by the facts of Indian life But the grant of full responsibility at the Centre was not found possible It was felt necessary to reserve defence, external affairs, ecclesiastical affairs and matters relating to tribal areas, for administration by the Governor-General Over the rest of the administrative field Ministers responsible to the Federal Legislature are to have authority, subject to special powers to be retained by the Governor-General for the discharge

[1] Report of the Joint Select Committee, vol I, part I (1934), pp 14-15

of his responsibilities to the British Crown.[1] Thus the new Federal Government is to be a dyarchy, but the reserved half is to be much smaller than it was in the provincial constitutions under the Act of 1919.

The Governor-General will have power to appoint not more than three counsellors to assist him in administering the reserved subjects. This provision is in keeping with the realities of the situation, but it is bound to cause some friction, seeing that as much as 60 per cent of the central revenue is absorbed by the Defence budget Already the non-votable character of the expenditure classified as defence, political and ecclesiastical has caused considerable friction in the Legislative Assembly With the grant of full responsibility in the provinces and the transfer of other central subjects to responsible ministers, this friction is likely to increase, especially as there will probably be a strong desire in the new Federal Legislature to cut down military expenditure in order that more money may be spent on nation-building services However, as the Joint Select Committee points out, even in independent countries, by far the greater part of a central budget is in effect always unalterable because the expenditure results from past commitments in the fields of foreign relations or social reform [2] It is also expected that the entry of the Princes into the Federation may tone down the central Legislature's disinclination to spend money on defence

The special responsibilities of the Governor-General are laid down in Section 12 of the Act, as follows

(*a*) the prevention of any grave menace to the peace or tranquillity of India, or any part thereof,

(*b*) the safeguarding of the financial stability and credit of the Federal Government,

(*c*) the safeguarding of the legitimate interests of minorities,

(*d*) the securing to, and to the dependants of, persons who are or have been members of the public services of any rights provided or preserved for them by or under this Act and the safeguarding of their legitimate interests,

(*e*) the securing in the sphere of executive action of the purposes which the provisions of Chapter III of Part V of the Act are designed to secure in relation to legislation;

(*f*) the prevention of action which would subject goods of United Kingdom or Burmese origin imported into India to discriminatory or penal treatment;

(*g*) the protection of the rights of any Indian state and the rights and dignity of the Ruler thereof; and

(*h*) the securing that the due discharge of his functions with respect to matters regarding which he is by or under this Act required to act in his discretion, or to exercise his individual

[1] Government of India Act (1935), Sections 10 and 11
[2] Report, vol I, part I, p 22

judgement, is not prejudiced or impeded by any course of action taken with respect to any other matter.

Great importance is attached to the Government's financial stability and therefore the Federal Structure Committee considered it necessary 'to reserve to the Governor-General in regard to budgetary arrangements and borrowing such essential powers as would enable him to intervene if methods were being pursued which would in his opinion seriously prejudice the credit of India in the money markets of the world'.[1] The Act enumerates the special responsibilities only in general terms, and more specific directions will be given in the Instrument of Instructions to be issued by His Majesty's Government to the Governor-General when the Federation comes into being. Provision is also made for the appointment of a Financial Adviser to assist the Governor-General in the discharge of his special responsibility for safeguarding the financial stability and credit of the Federal Government, and the ministers will be consulted when any appointment other than the first appointment is made to that post (Section 15).[2] Although technically the Financial Adviser is to be the Governor-General's adviser, his advice will be available to the ministers as well. In the opinion of the Joint Select Committee, the Governor-General may not need to exercise his special powers in the financial field, provided the right person is selected as the Financial Adviser.

Provisions in the Act regarding the Reserve Bank are also designed to strengthen the Governor-General's special powers for safeguarding financial stability. According to Section 153, the functions of the Governor-General in respect of the appointment and removal from office of the Governor and Deputy Governor of the Reserve Bank, the approval of their salaries and allowances, the fixing of their terms of office, the supersession of the Central Board of the Bank and allied matters, are to be exercised by him in his discretion. Further, the previous sanction of the Governor-General will be necessary for legislation with respect to the coinage or currency of the Federation or the constitution or functions of the Reserve Bank (Section 154).[3]

With a view to enabling the State railways to work on business principles without being subject to political interference, provision has also been made for the establishment of a Federal Railway Authority with a large degree of independence (Sections 181-99).[4]

In respect of his reserve powers and special responsibilities, the Governor-General will be under the control of the Secretary of State (Section 14).

[1] Second Report of the Federal Structure Committee, 13 January, 1931.

[2] See also White Paper, Proposal 17, and *Joint Select Committee Report*, vol I, part I (1934), p. 95.

[3] See *Joint Select Committee Report*, vol I, part I (1934), p. 229.

[4] White Paper, Introductory, para 74, *Joint Select Committee Report*, vol I, part I (1934), pp. 230-5.

Thus in order to keep the centrifugal forces in check, provision has been made for strengthening the authority of the Federal Government. Only a powerful Government at the Centre will be able to maintain the unity of India and to protect all classes of her citizens; and in the circumstances of India it would be very dangerous to have a weak Federal Government. The financial system devised for the Federation also provides for ample resources for the Centre, which should enable the Federal Government to aid the poorer and more backward provinces.

§2. *Demarcation of Functions*

Before we proceed to the important subject of finance, we shall deal briefly with the distribution of powers between the Federal and the provincial Legislatures. A demarcation of functions had already been made in the Act of 1919. This was further elaborated and three separate lists were prepared, namely, Federal, Provincial and Concurrent (see Appendix D). Under the Act of 1919, the provincial Legislative Councils had power to legislate for their own territories on any subject, even though that subject came in the central list in the Act, but the assent of the Governor-General was necessary for such bills to become law. Therefore, according to Section 84 (3), 'the validity of any Act of the Indian legislature or of any local legislature was not open to question in any legal proceedings on the ground that the Act affects a provincial subject or a central subject as the case may be'. This worked well on the whole. But with the attainment of autonomy by the provinces it would not have been right to continue the old arrangement and a statutory allocation of exclusive powers was found necessary. Therefore, as in other Federations, the courts will have to determine whether or not in a legislative enactment a legislature has transgressed the boundaries set for it by the exclusive list, federal or provincial, as the case may be. No doubt this will lead to litigation of a kind hitherto almost unknown in India, but this cannot be avoided in view of the changed political relationship between the Centre and the provinces. Hence the need for a Federal Court,[1] for which provision was made.

§3. *Allocation of Income-Tax*

Various schemes for reallotment of revenues were considered by the Round Table Conference, but at an early stage it was realized that there was no need for a radical change in the existing system. What was necessary was to find some balancing factor or factors by which a greater elasticity could be introduced. The revenue heads proposed for this purpose were income-tax, export

[1] *Joint Select Committee Report*, vol. I, part I (1934), pp. 142-3.

duties, salt, stamps and excise duties The principal object aimed at was that all the governments should have adequate revenues and the idea of a 'clean cut' was not too much stressed.

The announcement of an All-India Federation as the immediate goal lent further support to the claim of the provinces for the income-tax It is one of the fundamental principles of a Federation that its units should contribute to the federal resources on an equitable basis Therefore, if income-tax was to be a federal item it should be levied on the subjects of Indian states also But the rulers of the Indian states made it plain at an early stage that they were not prepared to accept that arrangement, and so the provinces' claim to be given the income-tax gained strength The financial stringency in the provinces resulting from the trade depression and the special troubles of certain impecunious provinces were also urged in support of the provinces' claim to the income-tax

The theoretical argument used by the supporters of the provincial claim was that the proper source of federal revenues is *indirect taxation and that direct taxation in most* Federations is allotted to the units The United States started with a firm conviction that it would be wrong for the Federal Government to raise revenue by imposing direct taxation, but later, when the federal services expanded, the needs of the Federation increased greatly and the Federal Government was empowered, by an amendment of the Constitution in 1913, to levy income-tax for Federal purposes At the present time the income-tax supplies as much as 70 per cent of the Federal revenues in the U S A In Canada and Australia also, the Federal Government has power to levy an income-tax, but in South Africa it is solely a Federal tax Thus while indirect taxes are generally treated as a purely federal source of revenue, direct taxes are not, as a rule, reserved entirely either for the centre or for the units In a developing country like India, the income-tax is likely to be the most elastic source of revenue and it is essential that the Federal Government should have a fair share of it [1]

The claims of the provinces, however, made an impression on the Round Table Conferences, and the Peel Sub-Committee recommended that the proceeds of the income-tax should be distributed among the provinces although the tax should be levied and collected by the Federal Government This would result in a deficit in the central budget which would have to be made good by provincial contributions This recommendation was further scrutinized by the Fact-finding Committee on Federal Finance with

[1] Further the terms direct and indirect taxes have created much confusion even among economists Judges in the United States and Canada have had to develop their own definitions of those terms rather arbitrarily (see Adarkar, *Federal Finance*, pp 52-3n)

Lord Percy as Chairman in 1932. Its recommendations were as follows:

1 Income-tax on the profits of companies should be detached and allotted to the Federal Government, and the income-tax collected from the federally administered areas and from officers of the Federal Government should also be so allotted.

2 The rest of the proceeds of the income-tax should be allotted to the provinces. The Committee admitted that the lack of some important data made it difficult to distribute the tax on personal incomes equitably among the different provinces, but they recommended that each province should be credited with the tax paid by the persons resident in it (i.e. by individuals, Hindu undivided families, unregistered firms and certain associations) including the tax on dividends received by them from companies, and that the tax collected from non-residents and undistributed profits of companies should be distributed on the basis of population.

On this basis, they found that out of the net yield of Rs. 17·20 crores, the super-tax on companies and other federal items would come to Rs. 3·70 crores and the balance available for distribution among the provinces would be Rs. 13·50 crores. Of this the bulk would be distributed on the basis of the estimated share of personal income-tax credited to the province.

3 The Committee also recommended that the loss that would result in the central budget should be made good by contributions from the provinces, and that these contributions should be based on the increase of revenue accruing to each province by the reallotment of income-tax. But if all the provinces were to pay in the same proportion, some of them would still have deficits, making allowance for various factors, the Committee suggested certain figures for the contributions in such a manner as to wipe out the deficits in the budgets of the provinces.

Some of the provincial Governments raised strong objections to the recommendations of the Peel and Percy Committees, they were also severely criticized by certain economists.[1] The provincial contributions under the Meston Settlement were so unpopular that the Government of India were unwilling to reintroduce them. Nor was it expected that the proposed contributions would be temporary as envisaged by the Peel Committee; for, having taken into account all the relevant facts, the Percy Committee was not able to give an assurance that the contributions could be abolished within any period that could be foreseen. The scheme was therefore abandoned.[2]

The provincialization of income-tax was also opposed by the

[1] See Papers on 'Federal Finance Committee and Contributions' by H. L. Chablani and 'The R.T.C. Scheme of Federal Finance' by P. J. Thomas in the *Indian Journal of Economics*, March 1933, and discussion thereon.

[2] *Joint Select Committee Report* (1934), pp. 162-3.

Indian states, on other grounds. They claimed that a part of the income-tax collections came from the subjects of Indian states It was also urged that several items of federal expenditure were entirely the concern of British India, e g the subsidies which the Government of India had decided to give to certain deficit provinces At one stage it was suggested that the public debt of India should be considered to be such an item. The Princes insisted that it should be a central (and not a federal) subject and that the new Federal Government should not have any liability in respect of it Subsequently the inquiries of the Peel and Percy Committees showed that only a fraction of the debt was unproductive, that 'if the Federal Government assumed responsibility for the whole of the pre-federation debt its obligations would be covered by the assets also taken over' and that 'the service of the debt will be fully covered by sources of revenue which will remain at the disposal of the Federal Government' Nevertheless, the states claimed that the resources of the Federal Government were likely to fluctuate and that unless the Centre had a large share in the income-tax the states would be running grave financial risks in joining the Federation

The above grounds led to the decision not to provincialize the income-tax completely, but it was still held to be desirable to give the provinces a share in its proceeds The following scheme of division was suggested in the White Paper The income-tax revenue derived from federal sources, i e federal areas or emoluments of federal officers, would be permanently assigned to the Federation Of the rest of the yield of the ordinary income-tax (except the corporation tax, referred to later) a specified percentage (to be fixed by Order in Council at the latest possible moment) was to be assigned to the provinces This percentage should not be less than 50 nor more than 75 Out of the amount so assigned to the provinces the Federal Government would be entitled to retain an amount which should remain constant for three years and thereafter diminish gradually to zero over a further period of seven years The Governor-General would have power to suspend these reductions, if circumstances made it necessary to do so The Federal Government and Legislature would, in addition, be empowered to impose a surcharge on the income-tax, the proceeds of which would be devoted solely to federal purposes, but this power should be exercised only in times of financial stress The Joint Select Committee agreed with the main lines of the White Paper scheme, but feared that, owing to the trade slump and the needs of the deficit provinces, it would not be possible to fix in the Act the percentage of income-tax proceeds to be assigned to the provinces, and that it would be best to leave it to be fixed by an Order in Council; nor did they see any prospect of fixing a higher percentage than 50

It was also decided to detach from the income-tax the taxes

on the income and capital of companies and to allot them entirely to the Federation. After ten years the corporation tax was also to be extended to the federated states, but any state which preferred that companies subject to its law should not be directly taxed by the Federation would have the option of paying to the Federal fisc an equivalent lump-sum contribution. The White Paper also proposed to empower the provincial Legislatures to impose surcharges on the personal income-tax, but the Joint Select Committee did not accept this The White Paper proposal to empower the Federal Legislature to impose an emergency surcharge for federal purposes was, however, approved, and further it was decided that any surcharge so imposed should also be levied in the federated states with a similar option for any such state to make an equivalent contribution to the federal revenues instead of having the surcharge levied in the state

These recommendations were embodied in Section 138 of the Act, which lays down that a prescribed percentage of the taxes on income shall be allocated to the provinces, subject to the proviso that in each year of a prescribed period the Federation may retain such sum as may be decided, and 'in each year of a further prescribed period a sum less than that retained in the preceding year by an amount, being the same amount in each year, so calculated that the sum to be retained in the last year of the period will be equal to the amount of each such annual reduction'. The distribution of the provincial share was to be prescribed by an Order in Council before giving effect to Part III of the Act (See Ch XXXII)

§4 *Other Balancing Factors*

The White Paper proposed that the Federal Legislature should be given power to allot to the units (provinces and states) at its discretion a share of the yield of salt duties, central excises and export duties In regard to the first two the object was not only to make the financial scheme more elastic, but also to facilitate the introduction of new taxes This was accepted by the Joint Select Committee and was embodied in the Act (Section 140) The provision in regard to export duties was in the interests of Bengal which had been accumulating deficits since 1930, and the Act specifically lays down that at least one-half of the net proceeds of the jute export duty shall be assigned to the provinces or states in which jute is grown, in proportion to the respective amounts of jute grown therein [Section 140 (2)] Half the net proceeds of the jute export duty was surrendered to the jute-growing provinces with effect from 1935-6 If an Act of the Federal Legislature so provides, the revenue from the salt duty and Federal excises may be distributed among the provinces and the states to which the Act applies [Section 140 (1)].

In a different category are placed commercial stamps (already levied by the provinces), succession duties, terminal taxes and taxes on railway fares and freights (which may be levied in future) The revenue from these taxes must go to the units, but for obvious reasons it is better that they are levied and collected by the Federation. The Federal Government will have power to place surcharges on those taxes at any time for federal purposes (Section 137)

The Act also authorizes the Federal Government to make grants-in-aid to deficit provinces The provinces to which such help has to be given are (1) the North-West Frontier Province, where special expenditure due to strategic considerations has to be incurred, and to which an annual subvention of Rs 1 crore was already being given, (2) Orissa and Assam, which under the present scheme of allotment of sources of revenue cannot be expected to balance their budgets, and (3) Sind, which will require subvention for some time but may eventually be able to balance its budget Fixed subventions are to be given to the last three provinces, while the subvention for the North-West Frontier Province may vary according to annual requirements (Section 142) Provision was made for the necessary subventions for these provinces in the budgets for 1935-6 and later years.

The Federal Government is also authorized by the Act to make grants to the provinces and states for specific purposes, and the provinces may also make grants for federal purposes.

Thus important modifications were made in the system of 'clean cut' introduced by the Reforms of 1919 Hitherto the revenue of the provinces came almost entirely from resources definitely allotted to them In future the provinces will be receiving a part of their revenues from sources which they will have to share with the Centre The provincial revenues in future will comprise

1 Provincial taxes, like land revenue, tax on agricultural incomes, irrigation receipts, excises on alcoholic liquors, drugs and narcotics, stamps (general), forests, registration receipts, etc ;

2 The provincial share in income-tax, salt duties, central excises and export duties;

3 The proceeds of stamps (commercial), terminal taxes and other taxes collected by the Centre but distributed in full to the provinces, and

4 Subventions from central revenues and grants for specific purposes

The resources of the central (Federal) Government are nearly the same as before, except that some of the sources previously central (i e income-tax, salt and export duties) will, or may, in future be divided between the Centre and the units. A certain part of this loss is made up by the power to levy surcharges purely for federal purposes on income-tax and commercial stamps and

on certain new taxes that may be levied in future, namely succession duties, terminal taxes and taxes on railway fares and freights. It is fair to point out, however, that the central Government are also undertaking new liabilities in the form of subventions to the deficit provinces.

Thus in the new scheme of federal finance, the revenues of India are divided into three main categories, namely (1) Federal, (2) Provincial, and (3) Jointly Federal and Provincial. Both the Federal Government and the provinces will have their own separate revenues over which each will have exclusive jurisdiction, legislative and administrative, and in addition they will both share certain common revenues levied and collected by the Federal Government under Federal law and mainly through Federal officers. Finally certain revenues are wholly allocated to the provinces, but legislation and administration in respect of them are exclusively Federal, and the Federal Government's only means of benefiting from those revenues is by imposing surcharges under Section 137. The position can be made clear by classifying all the revenues of India with reference to jurisdiction (legislative and administrative) and allocation of proceeds, as below:

Sources of Revenue	*Powers of Legislation and Administration*	*Allocation of Revenue*
Import duties (except on salt) Contributions from Railways and receipts from other Federal commercial undertakings Corporation tax Coinage profits and share in profits of Reserve Bank	Exclusively Federal	Exclusively Federal
Income-tax	Exclusively Federal	Partly Federal and partly (eventually 50 per cent.) Provincial
Export duties Salt duties Other excise duties except those on alcoholic liquors, drugs and narcotics	Exclusively Federal	Federal, with power to assign a share (or the whole) to units
Succession duties (except on agricultural land) Terminal taxes on goods and passengers Certain stamp duties Tax on railway fares and freights	Exclusively Federal	Provincial, with power to the Federation to impose a Federal surcharge
Land revenue Taxes on agricultural incomes Excise duties on alcohol, drugs and narcotics Succession duties on agricultural land Stamps (with exceptions) Forests and other provincial commercial undertakings Taxes on the sale of goods Taxes on luxuries (including entertainments, betting and gambling)	Exclusively Provincial	Exclusively Provincial

It may be noted that the growing head of excises is to be shared between the Centre and the units. But while the provincial excises are specifically enumerated, the sphere of the Centre is left unspecified, thus leaving to it the residue. Already the Centre has levied excise on various articles, and it has freedom to exploit that domain further This has caused some concern to the Indian states They point out that the Centre has full power to levy excise on any commodity and that if that power were fully exercised, the exclusive right of the units to levy land revenue or taxes on agricultural incomes would be nullified. But in practice, the Centre may not resort to levies which are likely to cripple the resources of the units; for, after all, the states will have a large number of representatives in the Federal Legislative Assembly and will have considerable influence in regard to the levy of fresh taxes.

Another feature of the new scheme is the absence of any defined residuary power in regard to taxation. It is not unusual in Federal constitutions to leave the residuary power in taxation either to the Federation, or to the states (vide *infra*, p. 411). In some federations, both the Federal Government and the states have nearly concurrent powers of taxation except that some taxes are prohibited to the latter Thus, in the U S A the states are prohibited from raising customs duties and in Australia, customs duties and excises are exclusively allotted to the Federation, whilst the rest of the tax domain is common ground The position of India in this respect is unique The Act of 1935 avoids the question of residual power by making three exhaustive lists. (1) Federal, (2) Provincial, and (3) Concurrent (see Appendix D). All unspecified subjects are to be allocated by the Governor-General, but this will not give much power to the Centre seeing that the subjects unspecified are so few Section 104 of the Act lays down that the Governor-General may by public notification empower either the Federal Legislature or a provincial Legislature to enact a law with respect to any matter not enumerated in any of the lists in the Seventh Schedule to the Act or to impose a tax or duty not mentioned in any such list, and the executive authority of the Federation or of the province, as the case may be, shall extend to the administration of any law so made, unless the Governor-General otherwise directs. It is expressly provided that in the discharge of this function the Governor-General shall act in his discretion

In times of emergency, the Federal Government will have power to levy surcharges on income-tax and on the taxes mentioned in Section 137 (commercial stamps, succession duties, terminal taxes, and taxes on railway fares and freights).

§5. *Borrowing*

The Act of 1935 has also enlarged the powers of the provincial Governments in respect of borrowing, as we shall see in the next chapter. Section 161 terminates the power of the Secretary of State to raise money on the security of the revenues of British India, except that during the transition period (from the time when Provincial Autonomy begins to the time when Federation is inaugurated) he will still have power to borrow in sterling under certain conditions (S. 315). Section 162 authorizes the Federal Government to borrow on the security of the federal revenues, within such limits as may be fixed from time to time by an Act of the Federal Legislature. Section 163 gives similar power to the provincial Governments to borrow on the security of the provincial revenues; but without the consent of the Federal Government, a province may not borrow outside India, nor raise any loan if there is still outstanding any part of a loan made to the province by the Federation [Section 163 (3)]. It is provided that the Federal Government shall not withhold such consent without sufficient reason. Even after Federation is inaugurated, the Federal Government may, if it so decides, lend to a province or state, or guarantee a loan raised by a province or a state (Section 165).

§6. *Financial Control*

By the Act of 1935 the control of the Secretary of State over the finances of India has been largely relaxed and most of his former financial powers are now vested in the Federal and Provincial Legislatures. Accordingly the Act has laid down the main lines of financial procedure in both the Federal and the Provincial Legislatures.

All estimates of receipts and expenditure of the Federation will be placed annually before the Federal Legislature. But estimates relating to the following items which are to be 'charged on the revenues of the Federation' will not be submitted to the vote of the Federal Legislature [Section 33 (3)].

(*a*) The salary and allowances of the Governor-General and other expenditure relating to his office for which provision is required to be made by an Order in Council.

(*b*) Debt charges for which the Federation is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt.

(*c*) The salaries and allowances of ministers, of counsellors, of the financial adviser, of the advocate-general, of chief-commissioners, and of the staff of the financial adviser.

(*d*) The salaries, allowances and pensions payable to or in

respect of judges of the Federal Court, and the pensions payable to or in respect of judges of any High Court.

(*e*) Expenditure for the purpose of the discharge by the Governor-General of his functions with respect to defence and ecclesiastical affairs, his functions with respect to external affairs in so far as he is by or under this Act required in the exercise thereof to act in his discretion, his functions in or in relation to tribal areas, and his functions in relation to the administration of any territory in the direction and control of which he is under this Act required to act in his discretion provided that the sum so charged in any year in respect of expenditure on ecclesiastical affairs shall not exceed forty-two lakhs of rupees, exclusive of pension charges

(*f*) The sums payable to His Majesty under this Act out of the revenues of the Federation in respect of the expenses incurred in discharging the functions of the Crown in its relations with Indian states.

(*g*) Any grants for purposes connected with the administration of any areas in a province which are for the time being excluded areas

(*h*) Any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal.

(*i*) Any other expenditure declared by this Act or any Act of the Federal Legislature to be so charged

There is, however, nothing to prevent the Legislature from discussing the estimates for the above items except those coming under (*a*) and (*f*) Estimates on all votable items will be submitted in the form of demands for grants to the Federal Assembly and thereafter to the Council of State and either Chamber may assent or refuse to assent to any demand When the Federal Assembly refuses to assent to any demand, that demand will not be submitted to the Council of State, unless the Governor-General so directs If the two Chambers differ with respect to any demand, there will be a joint sitting to decide the point at issue (Section 34) If the Legislature does not assent to a demand for a grant or cuts down the amount of the grant, the Governor-General may restore it, if in his opinion the refusal or reduction would affect the due discharge of any of his special responsibilities (Section 35) The schedule of authorized expenditure authenticated by the Governor-General will then be placed before both the Chambers, but will not be open to discussion or vote.

A Bill making provision (*a*) for imposing or increasing any tax, or (*b*) for regulating the borrowing of money, or (*c*) for declaring any expenditure to be expenditure charged on the revenues of the Federation, cannot be introduced or moved except on the recommendation of the Governor-General Further all financial Bills must be first introduced in the Federal Assembly and not in the Council of State (Section 37).

The procedure to be followed by the Provincial Legislatures in financial matters is in most points similar to that described above. Where there are two Houses, the upper House (Legislative Council) does not vote on demands for grants but discusses the budget in general. Certain items, including the salaries and allowances of the Governor, Ministers and High Court Judges and the expenditure connected with the administration of excluded areas, are not votable The Governor is also empowered to authenticate any demand for grant thrown out or cut down by the Legislative Assembly, if in his opinion it is essential for the discharge of his special responsibilities But the maintenance of the financial stability of a province is not one of those special responsibilities. Where there are two Houses, financial Bills must be first introduced in the lower House No such Bill can be introduced except on the recommendation of the Governor (Sections 78-82); in other words such Bills can only be introduced on the responsibility of the Executive [1]

It will be noticed that the items 'charged on the revenues' are analogous to the payments charged on the Consolidated Fund in the United Kingdom, which are not voted annually by Parliament. The principal difference is that the ministers' salaries are charged on the revenues and therefore non-voted in India There are special reasons for charging this item on the revenues [2]

[1] White Paper, Proposal 95, *Joint Select Committee Report*, vol I, part I (1934), p 81

[2] *Joint Select Committee Report*, loc cit , p 82

CHAPTER XXXI

FEDERAL FINANCE: AN ESTIMATE

§1. *The Theory of Federal Finance*

THE theory of federal finance is still in its infancy. Although two of the principal federations have been in existence for more than a hundred years, we have not yet acquired sufficient experience of the working of federal finance to be able to lay down general principles with much certainty. The finances of the existing federations were subjected to a very severe strain under the new economic conditions that resulted from the Industrial Revolution and the emergence of a world economy. The great American Federation began with the theory that the Federal Government and the States must have independent sources of revenue, each levying taxes in its own right and not drawing on the resources of the other. The Federal resources were understood to be strictly limited to 'indirect' taxes; direct taxes were also leviable by the Federal Government, but under Section 2 (3) of the Constitution the proceeds had to be apportioned to the several states according to population. When the financial functions and needs of Federation expanded after 1900, federal revenues became inadequate and finally the Sixteenth Amendment was passed in 1913 empowering Congress to levy and collect direct taxes for federal purposes. Further, in spite of the insistence by the states on their financial independence, federal aid has become a common feature, as has already been shown. Thus the system of complete segregation of resources, which the Germans call *Trennsystem* (separation system) broke down, and a mixed system (*Mischsystem*) of federal finance has been grafted on to it. That is to say, both the Federal Government and the states have certain independent resources and in addition both impose separately in their own right certain taxes of the same kind (e.g. income-tax, excises). The framers of the Canadian and Australian constitutions benefited by the experience of the U.S.A. and adopted a more or less mixed system. The mixture, however, is more in evidence in Australia than in Canada. A mixed system may be either one of 'concurrence' or one of 'contact'. In other words, both the Federal Government and the states may be allowed to collect the same tax, each having its own rates and collecting agency; or one Government may collect the tax and distribute a part of it to the other Government as an assignment or in any other form. The 'concurrent' system has been in operation, notably in the U.S.A. and in Australia in regard to income-tax, but it has led to

conflicting jurisdictions, and other difficulties, and therefore the system now favoured is that of 'contact'. The need for an independent tax domain for the Federation and the units still remains, but there must in addition be some balancing factors which would provide for the adequacy and elasticity of resources. It has also been found advisable to allot these 'balancing' taxes to the Federal Government for legislation and administration, so that the rates may be uniform as between the different states.

It is clear that the system embodied in the Act of 1935 has been drawn up in the light of the principles enunciated above. The Act of 1919 aimed at the principle of 'independence' or 'separation of resources', owing largely to the discredit into which the system of 'divided heads' had fallen, but as this would have produced a permanent deficit in the central budget, provision had to be made for provincial contributions. Experience showed that an 'independent' system was not likely to produce adequate resources permanently for both parties With a view to making the provincial finances elastic and creating an incentive for the provinces to co-operate in improving the revenues collected by the central Government, it was decided after mature deliberation to distribute the yield of certain taxes between the central Government and the provinces This is indeed a partial return to the system of 'divided heads', but it is hoped that it will work more satisfactorily, now that it is accompanied by provincial autonomy.

A novel feature that has been added to the system of federal finance by the Act of 1935 is that in the case of taxes the proceeds of which are to be distributed to the provinces in full, both legislation and administration are to be vested in the Federal Government This gives the provinces an incentive to nourish those revenues, and the Federation will be able to levy surcharges in times of need; troublesome conflicts of rates and laws are thus avoided.

In some federations the residual power of taxation is vested in the states (as in the U S A and Australia); and in others (e g Canada) the Federal Government is the residuary legatee It does not follow, however, that where the states have the residual power, their resources are greater The enumerated taxing powers of the Federal Government may be large, as in Australia, and thus the residue left to the states may be only a meagre one. The framers of the new Indian Constitution have benefited by the experience of federations elsewhere, and have carefully delimited the respective tax domains of the Federation and the units They sought to introduce an element of elasticity by marking off certain taxes for the joint benefit of both Governments, but wisely vested the taxing power in the Federation. Section 104 vests in the Governor-General the power to allocate any residual item, but as both Governments have fairly extensive independent fields allotted

to them, this residual power stands on a different footing from that in Australia and elsewhere.

Some critics hold that in the new financial system of India the Federal authority will be unduly powerful Some of the features mentioned above may seem to justify this criticism, but we have to remember in this connexion that the whole function of defence is vested in the Federal Government; and it is essential that that Government should have full discretionary power to raise additional revenue in times of emergency. Further, the fundamental reason for prescribing that the balancing taxes should be levied and collected by the Federal Government is not a desire to enhance the power of that Government but the desire to avoid the inconveniences which would otherwise result Where there are concurrent powers of taxation, the conflict of federal and state laws often leads to considerable litigation This has been the experience of Australia, especially in regard to the income-tax; the Royal Commission on Australian Taxation (1921) condemned the system as unsuitable, and recommended the federalization of income-tax The India Act of 1935 has therefore wisely guarded against possibilities of such a clash between the Federation and the Units As will be shown presently, a financially prosperous Federal Government is essential for the unity and strength of India, and it would have been most injurious if anything like a residual power had been granted to the provinces

§2. *The Needs of the Federal Government*

Two important assumptions are generally made by those who criticize the financial powers vested in the Government of India by the Acts of 1919 and 1935, namely (1) that the needs of the Federal Government are 'stationary or falling', and (2) that the revenues of that Government are expansive[1] Neither of these assumptions is true, so far as one can judge from the existing circumstances

The needs of the central Government might have remained stationary had their functions been confined to external defence and internal security, but the Centre will have to perform important functions connected with economic development and social welfare

In the olden days when transport was slow and economic life functioned in narrow spheres, defence was the only large function of Federal Governments; but today economic life is functioning on a world scale and each country has to maintain a unified and co-ordinated economic policy This is as true of federations as of unitary states, and is illustrated by the experience of the United

[1] Both these assumptions were made by the critics of the 'Meston Settlement', and even by the Simon Commission and various committees of the Round Table Conferences.

States, Canada, Australia and other federations. In those countries in spite of the jealous safeguarding of 'states' rights', federal aid and direction have increased in recent times and are likely to continue to increase in future.

In this country the need for federal co-ordination and formulation of policy must be regarded as even more urgent than in the other countries mentioned above, because of the powerful centrifugal forces resulting from the existence of units which are very dissimilar and from the conflicting interests of various economic groups in the land In a heterogeneous country like India, the operation of certain uniform economic policies is essential for orderly progress. Further the existence of backward tracts and units with inadequate financial resources necessarily entails a heavy burden on the Federal Government The North-West Frontier Province, Orissa and Sind will need subventions from federal revenues for a long time to come and, having created these provinces, the central Government has a duty to give them a fair start The poorer of the existing provinces—Assam, Bihar, etc —also have to be helped, as already explained

External relations and commerce are the most important responsibilities of the central Government Hitherto India's foreign relations have been largely managed by the United Kingdom and therefore did not involve any large expenditure, but, as India's political status rises, the expenditure on external relations is also bound to increase Commercial policy has not worried the Government of India very much till lately, but the trend of developments abroad and the economic aspirations of the people at home have already made a more energetic commercial policy necessary

Education, public health, agriculture and industries are primarily provincial subjects, but, if these important nation-building agencies are to produce the greatest possible benefits in service to the public, suitable policies must be formulated in many respects on a more or less all-India basis [1] Research must provide the basis for policy, and research is most effectively carried out under the direction of the Federal Government For successfully launching certain policies in which the whole country is interested, the Federal Government will have to make grants to the provinces In regard to the above social services, therefore, the Federal Government will have to arrange for research, formulate policies and make grants to the provinces.

Those who look forward to a reduction in central expenditure base their hopes on a substantial reduction in military expenditure. It is true that the expenditure on defence expanded largely during the War. It rose from Rs 29·84 crores in 1913-14 to Rs. 81·76

[1] See, for instance, the Report of the Hartog Committee (1929), which says that the divorce of the Government of India from education has been unfortunate. p 346.

crores in 1920-1 (net). But since then the expenditure has fallen largely It stood at Rs 55·10 crores in 1929-30, and fell to Rs 44·38 crores in 1934-5 It must be remembered that the rapid fall in defence expenditure after 1930 was due to the slump and to emergency measures of a temporary character; both Sir George Schuster and Sir James Grigg warned the Legislature that the present figure 'could not be regarded as a new permanent level of defence expenditure'[1] The same opinion was held by Sir Robert Cassels, and was confirmed by the findings of the financial expert, Sir Otto Niemeyer It is possible that new ways of economizing may be discovered in future, but one fears that such savings will be absorbed in greater expenditure on aerial and naval defences As India obtains a higher political status, the burden of defence is likely to increase rather than diminish. Nor is there any near prospect of general disarmament The menace of war is growing, and our defence expenditure has already gone up slightly.

Taking all the above circumstances into account, one is inclined to agree with Sir Otto Niemeyer's conclusion 'that expenditure at the Centre cannot be expected consistently with safety to decrease much below the point to which it has now been reduced'.

§3 *The Revenues of the Federal Government*

Critics of the 'Meston Settlement', including the Simon Commission, have held that the revenues of the central Government are expansive This was perhaps true in the decade 1921-30, but it is no longer true, partly because some of the elastic sources have been made divided heads and partly because of important changes in the general nature of Indian production and trade In future import duties and revenue from certain Commercial Departments (Railways, Posts and Telegraphs) will be exclusively Federal sources of revenue It is true that these expanded greatly between 1921 and 1930, but these are precisely the revenues liable to fluctuate with the phases of the trade cycle and are not likely to show any marked secular upward trend in future

Customs revenue increased from Rs 17 crores in 1914 to Rs 34 crores in 1921-2 and to Rs 50 crores in 1929-30 No doubt this was partly due to the increases in rates, but it was also due to the expansion of external trade during the period But though between 1930 and 1932 the value of external trade of India fell by one-half, the revenue has nevertheless been maintained by the imposition of heavy emergency surcharges When those are removed, there will be a dwindling of revenue unless some other compensating factor begins to operate in the meantime. The fall in customs duties has not been due merely to the dislocation of

[1] Budget Statements for 1934-5 and 1935-6.

trade resulting from the economic depression, but has been caused by the greatly increased production in India of articles which were formerly imported. The striking growth in the internal production of cotton piece-goods, sugar, matches, iron and steel, and cement has already been dealt with in Chapter XXVIII. The steep fall in the customs revenue resulting therefrom has also been shown. The most striking case is that of sugar, the customs revenue from which fell from Rs. 10·68 crores in 1930-1 to only Rs. 44 lakhs in 1936-7 The revenue from the imported cotton goods has also largely declined Indian production is growing fast and, although importation may not cease altogether, no large revenue from the above items can be expected in future When imports diminish, exports are also bound to fall, and therefore the contraction of import revenue may lead to a contraction in the revenue from export duties also Further, India has to take into account the increasing number of import quotas and other restrictions in foreign countries It is true that when some items of imports decline others may increase, but the growing demand in India for protection makes the future of the customs revenue uncertain If the country insists on having high all-round protection, it must be prepared to sacrifice the bulk of the customs revenue and find alternative sources

There have already been efforts to make up for the loss of customs revenue by imposing fresh excises, but it will be some time before the central excise revenue expands into a major source To raise a large revenue from nascent industries is no easy task; further, the new excises may have to be shared between the Centre and the provinces The income-tax yield will certainly benefit by increased production in the country, but the Federal Government will receive only a portion of it in future

The other important Federal source, namely revenue from certain Commercial Departments, has largely contracted in recent years as shown in the last chapter Between 1921 and 1929, the non-tax revenues of the central Government (of which the net receipts from the Commercial Departments are the principal single item) brought in Rs 20 crores annually, but since 1930 there has been a land-slide In 1933-4 and 1934-5 these revenues came down to about Rs 6 crores The principal revenue-yielding Commercial Department is the Railway Large revenues accrued to the state from this source during and after the War and, after the Railway budget was separated from the central budget, the annual contribution came to between Rs 5 and Rs. 6 crores But since 1930-1 not even the fixed contribution to general revenues has been paid, and a large deficit (Rs. 32 crores up to 1934-5) has been accumulated Nor is this merely due to the trade depression. It is largely due to competition from road transport and to the reduced demand for imports resulting from increased home production. When large quantities of rice

and jute were exported, and the interior parts of India freely absorbed imports of cotton goods from Lancashire and sugar from Java, the Railways were able to make large profits and contribute liberally to the central revenues. But when the exports fell and home-produced goods replaced imported goods, the demand for railway transport diminished Internal trade has indeed increased and continues to increase, but road motor transport carries a good part of that trade and this is likely to continue. Railway revenues have lately improved slightly, but unless there is a radical reorganization, no substantial improvement is likely

The Government of India formerly had a large revenue from monopolies. Opium brought in Rs 10 crores in 1880 and Rs 9 crores even in 1910, but it produces hardly half a crore to-day The revenue from salt is considerable at present (Rs. 8·18 crores in 1935-6); but this high figure is due to certain temporary influences A strong political party in the country views this tax with disfavour and would like to see it lowered In view of this sword of Damocles hanging over its head, one cannot even hope that the revenue from salt will be maintained at its present level

It is possible that some savings may be realised in future from debt conversions, but such savings should be used for making a more adequate annual contribution for the redemption of debt than the present reduced figure of Rs 3 crores, which Sir Otto Niemeyer considered inadequate

There is no doubt that the increase of industrial production and the growing internal trade will increase the yield of the income-tax, the new excises, stamps, registration fees, etc. But some of those sources are entirely provincial and others are 'divided heads'. The provincial Governments' right to levy sales taxes may be used to the detriment of certain central taxes, and this fear has already materialized (vide *infra*) Judging from certain indications, it is possible that the whole trend of economic development in future may be in favour of the provinces. When economic internationalism flourished, India was linked to it as a primary producer and as a steady consumer of sugar, textiles and iron goods; but today, with the growth of economic self-sufficiency in most countries, India's position in the world economy is undergoing a radical change The demand for India's primary products abroad has shrunk; India's demand for cloth, sugar, iron goods and other manufactured goods from outside has also greatly diminished In the days when foreign trade loomed large, customs revenue had a wide scope, but now that machinery and a few luxury goods have become the principal imports, the scope for levying import duties is naturally very limited The central Government can indeed impose excises, but it will take time and, when they increase, the provinces will demand a share of the proceeds. Thus while the industrial development of India depends

very largely on central policy and direction, the increase in tax yields due to industrial progress will partly go to the provinces. The Tariff Acts, which have made the industrial development possible, may turn out to be 'self-denying ordinances' so far as the central Government is concerned.

Thus, although the financial provisions of the Act of 1935 may appear unduly favourable to the Federal Government, those provisions are in reality essential for enabling it to increase its revenues in times of emergency. Such provisions do not weaken the federal aspect of the new financial system, and they are absolutely necessary if the Federation is to function properly. They embody the quintessence of the financial experience of many long-established federations.

§4 *Subventions and Grants*[1]

As already shown, the Government of India have lately adopted the policy of making grants and subventions to the provinces. The subventions are given to help the provinces which could not reasonably be expected otherwise to balance their budgets, but the grants for schemes of rural improvement and road development are intended to enable the provinces to carry out schemes of national importance for which they cannot provide adequate funds themselves, and they may become a permanent feature of the financial system of India.

Grants and subventions to the units have been in vogue in most federations and it would be wise on our part to benefit by their experience. In Australia, while the Commonwealth has adequate resources including the exclusive power of customs and excise taxation and concurrent powers in direct taxation, the revenue of the states is inadequate, and therefore provision has been made in the constitution for annual subsidies from the federal revenues. Generally these subsidies have been distributed on the basis of population. The system of subsidies per head of population gave rise to much dissatisfaction among the less populous, but developing states, and the Royal Commission on Australian Taxation[2] condemned it. In 1927 the subsidies per head were abolished. A Commission appointed in 1933 inquired into the complaints of the discontented states and during the last two years subsidies have been distributed according to the recommendations of this body.

Judging from the working of federal subsidies and grants in

[1] The term 'subventions' is generally used to mean aids given, without strictly specifying the purpose, while grants are made for specific purposes.

[2] 'The state, which has the largest population, is most advanced in its development and has, therefore, the fewest problems to solve, will progressively receive more and more from the Commonwealth, while states like Western Australia with small populations and great developing problems, will fare the worst' (Bruce, Prime Minister). See R. C. Mills, *Economic Record*, May 1928, p. 7. See also Adarkar, op. cit., pp. 145-8.

Australia and elsewhere it is possible to formulate certain basic principles Generally, it is inadvisable to allow one authority to spend the revenue that another has raised. Such a system necessarily weakens responsibility and encourages extravagance. But subventions may be necessary in the case of units which are financially embarrassed owing to special causes, and there is some justification for subventions in the case of units which cannot normally provide for a minimum standard of social services. Some precautions, however, are necessary in granting such subsidies Firstly, the states seeking assistance must make the utmost effort to get over financial embarrassments, as otherwise financial responsibility may be impaired Secondly, such subventions should not aim at equalizing the scales of expenditure in the different units Several provincial Governments in India put forward claims for subventions on the ground that their expenditure per head of population under various heads was much lower than that in other provinces, but it is futile to expect absolute equality in scales of expenditure between different parts of a sub-continent like India Expenditure standards are bound to vary with economic and social conditions As Sir Otto Niemeyer pointed out, 'in any country of the size of India there must inevitably be substantial differences in the standard of administrative needs and possibilities just as there are in other areas of the same size in the rest of the world or, for that matter even in smaller units'

But a different set of principles must guide the distribution of grants The interests of the whole country require that certain social services like roads, bridges and public health arrangements should be maintained in all parts on a fairly uniform standard, and therefore the federal authority may grant funds for such specific purposes, but those funds should be expended in the manner approved by that authority Such grants are intended to supplement provincial (or state) expenditure Thus, in the U S A , grants are made to the States in aid of expenditure on highways, vocational education, maternity and infancy hygiene, etc In most cases there is an obligation on the part of the states to match the 'Federal dollar', i e the state is required to provide a sum equal to the grant for the same object. Federal aid has lately assumed large proportions in the U S A.; it rose from $12 6 millions in 1915 to $137 millions in 1927 Similar grants are made in Canada and Australia also [1]

The real difficulty about these grants is that they involve interference by the Federal Government in the sphere of administration reserved for the units Even in the United States where 'states' rights' are jealously guarded by a free people, the recent increase of grants has led to a large extension of federal control Nonetheless, federal aid is tolerated by all and even welcomed by

[1] See Adarkar, op. cit., pp. 73-4, 121-4, 133-5.

some, because it enables the more backward states to raise their standard of administration above what they would be able to maintain with their unaided resources.[1] The mode of distributing these grants has been a matter of controversy in most federations. On the whole the population basis is perhaps the best, but when the grant is meant for a special purpose connected with agriculture the rural population alone should be taken into account

In India grants from the central Government to the provinces were an annual feature of the central budget between 1900 and 1919, but with the introduction of the Montagu-Chelmsford Reforms there arose a conviction that, if provincial autonomy was to be real, the provinces should not be dependent on the central finances, and the practice of giving grants to the provinces ceased for some years To make the provinces dependent on central aid for a large part of their resources would, no doubt, mean weakening their autonomy and the incentive to economy, but in the interests of the harmonious development of the country it is essential that the provinces should be helped in pushing on schemes of development in such matters as education, public health and roads, in which the whole country is interested It is true that the practice of giving such grants under the centralized system of government before 1921 was not a success, but it should work better in a federal system, if suitable precautions are taken From certain statements of Sir James Grigg it is clear that such precautions are being taken If properly employed, federal aid will become an adjusting factor of great utility in the relations between the central Government and the units, and will be a most valuable agency for ensuring a national minimum of economic welfare to the masses in this country

[1] MacDonald, *Federal Aid*, p 12

CHAPTER XXXII

INAUGURATION OF PROVINCIAL AUTONOMY

§1 *The Niemeyer Enquiry, 1936*

We will now proceed to consider the arrangements made for implementing the Government of India Act of 1935. It was clear to Parliament that the success of the Reforms would depend very largely on the financial position of the Governments in India. Having regard to the recurring deficits of most of the provincial Governments from 1931 and the uncertainties regarding recovery from the depression, it was decided that before giving effect to Part III of the Act (Provincial Autonomy), there should be an expert inquiry into the financial position of the provinces, the special assistance required by each, and the time and mode of distributing the provincial share of the income-tax. In January 1936 Sir Otto Niemeyer was appointed to conduct this inquiry; after making investigations in India, he made his report on 6 April 1936.

Two principal objects were held in view by Sir Otto, namely (1) maintaining the financial stability and credit of the Government of India, and (2) starting the provinces on their autonomous careers on 'an even keel'. He realized at the outset that the central revenues were not so expansive as was often assumed, and that the central expenditure could not be expected to fall substantially. It was therefore not possible for the central Government to make large subventions to the provinces, nor were such subventions necessary for many of them. Certain provinces were financially embarrassed, and it was necessary to improve their position so as to give them a fair start when inaugurating provincial autonomy. The newly created provinces would obviously need help, but the poorer of the older provinces also deserved some consideration.

After taking the financial difficulties into account, relief was found necessary for the following provinces to the extent stated: Bengal, Rs. 75 lakhs, Bihar, Rs. 25 lakhs; Central Provinces, Rs. 15 lakhs, Assam, Rs. 45 lakhs; the North-West Frontier Province, Rs. 110 lakhs, Orissa, Rs. 50 lakhs, Sind, Rs. 105 lakhs; the United Provinces, Rs. 25 lakhs[1] (for five years) thus making a total of Rs. 4·50 crores. In addition certain non-recurring grants amounting to Rs. 24 lakhs (Orissa, Rs. 19 lakhs, Sind, Rs. 5 lakhs) were also considered necessary. Some of these provinces had already received subventions to a total of Rs. 2·58 crores in the

[1] Relief to the United Provinces is due to immediate difficulties and will be temporary.

budget for 1936-7 (North-West Frontier Province, Rs. 1·00 crore, Orissa, Rs. 50 lakhs, Sind, Rs. 1·08 crores). Further provision had therefore to be made to the extent of Rs. 1·92 crores for recurring grants. In view of the expected loss of about Rs. 2·5 crores due to the separation of Burma, the new burden is a heavy one for the central Government, but an expansion of the central revenues may be expected to make up for this. Further a reserve fund of Rs. 2 crores was constituted from the estimated surplus of 1935-6. Thus it was considered that the establishment of Provincial Autonomy would involve the maintenance of at least the present tax-burdens, unless economic conditions improved more rapidly than hitherto.

Sir Otto recommended that assistance should be given to the provinces in three ways:

1. Cancellation of debt. The net debt[1] incurred prior to 1936 by Bengal, Bihar, Assam, the North-West Frontier Province and Orissa and in the case of the Central Provinces all pre-1936 deficit debt plus approximately Rs. 2 crores of pre-1921 debt was to be cancelled.

2. Distribution of a further 12½ per cent. of the export tax on jute to the jute-growing provinces, thus raising the provincial share to 62½ per cent. of the estimated gross yield of the duty. On the yield in 1936-7 (Rs. 3,80 lakhs), the increase in the share of the jute-growing provinces will be as follows: Bengal, Rs. 42 lakhs; Bihar, Rs. 2½ lakhs; Assam, Rs. 2¼ lakhs; Orissa, rather over Rs. ¼ lakh. Sir Otto, however, did not admit that the jute-producing provinces had any special claim to the proceeds of this duty. He justified his recommendation not by any such inherent right of those provinces, but only on the ground that they stood in need of financial assistance.[2]

3. Annual cash subventions to supplement the other two forms of aid: United Provinces (Rs. 25 lakhs for 5 years only), Assam (Rs. 30 lakhs), Orissa (Rs. 40 lakhs), North-West Frontier Province (Rs. 100 lakhs, subject to reconsideration after five years), and Sind (Rs. 105 lakhs to be reduced by stages after ten years). Total: Rs. 3 crores.

[1] i.e. after setting off certain balances.

[2] On the claims of the jute-producing provinces, Sir Otto Niemeyer writes: 'In my opinion, it is doubtful whether the argument that the incidence of this particular duty falls wholly on the producer can be maintained. No concrete statistical proof of this contention has been produced, and even if such proof could be produced for a specific date, it may be doubted whether it would be valid in all the circumstances of a changing market. Further, even if the argument were completely sustainable, it would not be conclusive on the question whether or not the community as a whole in India was entitled to tap this source of revenue as it must in fact tap other sources of revenue of unequal provenance among the different parts of India. No source of revenue, whether customs, excise or income-tax, can in fact in any country be derived equally from all parts of the country alike, rich and poor, industrial and agricultural. In so far as a claim may be put forward on the ground that the taxable capacity of Bengal is limited by the incidence of this duty, that is a claim not so much to this particular duty as to financial assistance generally.' (Report, pp. 9-10.)

No subventions were recommended for Madras, Bombay and the Punjab, and no part of their debts was cancelled; but Madras got an annual relief of about Rs. 22 lakhs through the separation of the Oriya-speaking tracts. The annual relief to Bombay through the separation of Sind amounted to about Rs 90 lakhs. It is true that the budgetary position of these provinces, especially Madras, is strong in spite of the depression, but it must be remembered that in the case of Madras in particular it was by the practice of thrift, or even niggardliness, that the province was able to keep its budgets balanced. It is a legitimate criticism that by treating more generously the provinces that went on borrowing extravagantly without raising adequate revenue, the central Government have penalized thrift and encouraged extravagance. It is, however, essential to give every province a reasonable chance of making a real success of provincial autonomy, and so the dead wood inherited from the past has to be cut out The thrifty provinces may find some consolation in the hope that in future the fruits of their thrift will not be taken away from them.

Such was the immediate relief which was to accompany provincial autonomy It then remained to consider the ultimate relief intended to be given to the provincial finances by distributing to the provinces a portion of the proceeds of the income-tax under Section 138 (1) of the Act In view of the rigidity of the central expenditure, the decline of important sources of revenue like the railway contribution and the loss resulting from the separation of Burma, Sir Otto Niemeyer was unable to recommend anything more than 50 per cent. as the share of the income-tax to be distributed to the provinces. In order to arrive at the provincial share of the net proceeds of the income-tax, various deductions have to be made from the gross revenues as follows :

	Rs. (crores)
Gross revenue (1936-7 estimate) .	15·7
After deducting the cost of collection and Burma's share . .	13·6
After deducting the corporation tax and the tax collections in central areas (1·75 crores) about	12
Provincial share about	6

Under Section 138 (2) (*a*) of the Act, it was necessary to prescribe the period during which a part of the provincial 50 per cent. share of the income-tax revenue was to be retained by the Federal Government and what that part should be Sir Otto thought that the Centre could be expected to consolidate its financial position within a period of five years and therefore recommended that the prescribed period be five years. As for the part to be retained in each year, he found it difficult to prescribe any specific amount, seeing that economic conditions were in a state of flux. It seemed to him preferable to base the amounts

to be withheld on the realization of certain concrete facts—i.e. on the extent to which the income-tax revenue progresses and on the extent to which the Railways are able to achieve a surplus. He thought it was desirable to give both the central Government and the provinces an interest in securing these results and a share in the improvements if and as soon as they were achieved. Thus the amount to be retained by the central Government in a year during the prescribed period of five years should be the whole of the provincial share or the sum required to bring the proceeds of the 50 per cent share of the Centre together with the revenue from the Railways up to 13 crores, whichever was less.

Under Section 138 (2) (*b*), during a second prescribed period the Centre shall relinquish to the provinces by equal steps as much of the provincial share as it retains in the last year of the first period. Sir Otto found it hazardous to look so far into the future, but he thought it should prove safe to prescribe five years as the second prescribed period. Thus within ten years of the commencement of Provincial Autonomy, the provinces will come to enjoy their full share of the income-tax revenue However, he thought it necessary to add a word of warning to dissuade the provinces from mortgaging in advance their prospective additional resources.

Finally, it had to be decided in what manner the provincial share of the income-tax revenue should be distributed. The two chief bases of division proposed were population and residence. Each province favoured the basis that would maximize its own dividend. Sir Otto thought that substantial justice would be done by fixing the scale of distribution.

The scale of distribution has been fixed with reference partly to the residence of assessees and partly to population, 'paying to neither factor a rigidly pedantic deference for which the actual data provide insufficient justification'. On this basis the percentage quotas of the various provinces were fixed as follows: Madras, 15; Bombay, 20; Bengal, 20; United Provinces, 15; Punjab, 8, Bihar, 10; Central Provinces, 5; Assam, 2; North-West Frontier Province, 1; Orissa, 2; and Sind, 2.

These recommendations were accepted by the British Government, and an Order in Council was accordingly issued on 3 July 1936 (see Appendix E) In the case of Sind and Orissa, certain additions were made to the grants proposed for them.

§2. *The Financial Settlement with the Provinces*

On 1 April 1937, Provincial Autonomy was inaugurated in the eleven provinces of British India Effect was given to Part III of the Government of India Act, which relates to the provinces. The government of these provinces thus passed to ministers

responsible to popularly elected legislatures. Not only law and order but the finances of the provinces thus came under the provincial Legislatures. That control is almost complete and the few restrictions which still remain in regard to borrowing and certain non-votable items (chiefly the salaries and allowances of Governors, debt charges, salaries and allowances of the Ministers, High Court Judges, and the Advocate-General, and expenditure on the administration of 'excluded areas') do not materially weaken the financial authority of the provincial Legislatures. The responsibility for the finances of the province has been completely transferred to popularly elected representatives of the people.

The principal changes that took place in the financial position of the provinces on the inauguration of Provincial Autonomy were: (1) consolidation of provincial debt, and (2) decentralization of provincial balances. Reference has already been made (ch. xxvi) to the Provincial Loans Fund from which, after 1925, advances were made to the provinces by the central Government. This Fund was financed from public loans, and interest charges to the provinces varied according to the rates that the Centre had to pay. Even before the Act of 1935, the system disclosed serious defects and with the adoption of Provincial Autonomy the whole procedure became inappropriate. On 31 March 1937, the Provincial Loans Fund was wound up and all provincial debts to the Government of India (except those cancelled) were consolidated on the terms set forth in the Niemeyer Report. That is to say, the pre-Autonomy debt of each province was consolidated into a single debt carrying a uniform rate of interest. In order that repayment should not impose too heavy a burden on the provincial budgets, the period of repayment was fixed at 45 years. Certain exceptions, however, were found necessary in regard to the Lloyd Barrage debt, some loans advanced to the Bombay Government and Rs. 10 crores of pre-1921 debt due from the Punjab.[1]

At the same time, the balances held by the Government of India on account of the various provinces were also transferred to them. The central Government had been keeping not only the cash balances of the provinces, but their Famine Funds, Depreciation Funds, and unspent amounts of the Road and Rural Development Funds and other resources assigned to the provinces in the past in advance of requirements. There were also various other deposits (such as interest-bearing State Provident Fund deposits, interest-free balances of municipal and other local authorities, departmental and judicial deposits, etc.) which were of an intrinsically local nature. These, together with the liabilities attached to them, were transferred to the provinces concerned. These transfers were effected partly in the form of cash and partly as a reduction of debt. From April 1937, every province must

[1] Budget speech by the Finance Member, 27 February 1937.

maintain a minimum balance with the Reserve Bank and must also have cash in its treasuries. The decentralized balances were first utilized for these essential purposes. What remained was used to write off part of the debt due from the provinces to the Government of India. Sir Otto considered that this adjustment would mean a budgetary benefit to the provinces

The practical results of the decentralization of balances and consolidation of debt may be made clearer by taking the case of one province. Before 1 April 1921, the Government of Madras had incurred capital expenditure to the extent of Rs 8,75 lakhs for the construction chiefly of productive and protective irrigation works. Out of this amount, Rs. 47 lakhs was debited to the Government of Orissa when that Government was constituted on 1 April 1936. The balance on 31 March 1937 was Rs 8,28 lakhs Loans had also been advanced to local authorities and cultivators in the province from moneys advanced by the central Government, but these were repaid before 1937. Between 1921-2 and 1936-7, about Rs 13,53 lakhs was borrowed for the Cauvery-Mettur Project and other objects, and of this Rs 7,00 lakhs remained unpaid on 31 March 1937 The amount borrowed for the Cauvery-Mettur Project was to be repaid in seventy annual instalments (1936-2005), and the amount borrowed for other objects was to be repaid in fifteen annual instalments. Thus the debt position of Madras on 31 March 1937 was as follows

		Debt due under the old arrangements	Annual payment towards interest and principal in 1937-8
1 Pre-1921 debt		8,28 19	28 12 (interest in perpetuity)
2 Post-1921 debt			
Cauvery-Mettur Project	6,10 90		
Other debt	89 37		
		7,00 27	59 55
Total ..		15,28 46	87 67

The average rate of interest was 3·39 per cent on the pre-1921 debt, 4·81 per cent. on the post-1921 debt and 4·04 per cent. on the whole debt.

On 31 March 1937, the deposit balances to the credit of Madras (not including the general cash balance which was transferred in the form of cash) amounted to Rs. 7,71 lakhs. These balances were not handed over to the Madras Government but were adjusted

in reduction of the pre-1921 debt of Rs. 8,28 lakhs, leaving only Rs. 56·44 lakhs still outstanding on that account. Thus the total debt of Madras was reduced to Rs 7,56 lakhs. The average rate of interest on this debt was 4·71 per cent. The Government of India consolidated the amount into a single debt repayable over a period of 45 years, with interest at 4·50 per cent. Madras will have the option of redeeming between 1 April 1945 and 15 October 1946, any part not exceeding one-half of the principal of this consolidated debt then outstanding The whole of it may be redeemed between 1 April 1960 and 15 September 1961. The annual equated payment towards the interest and principal of this consolidated debt is Rs 39·29 lakhs, payable in half-yearly instalments (15 September and 15 March).

The interest payments on account of deposit liabilities transferred (see above) amount annually to Rs. 16·43 lakhs.

Thus, as a result of the consolidation of debt and decentralization of balances, the total debt charges for Madras in 1937-8 in respect of debt incurred before 1 April 1937 were Rs. 53·37 lakhs, when they would otherwise have been Rs. 87·67 lakhs. The annual benefit to the budget from these arrangements will, however, gradually diminish till it reaches a very small sum, which will be completely offset by the new expenditure for interest on floating debt, together with the loss of interest on about Rs. 60 lakhs required to furnish the working cash balances in the treasuries of the Province and the minimum balance to be maintained with the Reserve Bank.

Autonomy has brought new responsibilities Till 1 April 1937, the Government of India held all the cash balances in the Public Account for British India, and were responsible for 'ways and means' in the course of the year; that is, for arranging that the cash balances should be sufficient every day to meet all authorized payments and still leave the minimum balance in the Reserve Bank and necessary working balances in the treasuries. The provincial Governments operated on this common body of cash and were free to overdraw without restriction in the course of the year, provided that there was no overdraft on the last day of the financial year Now that the cash balances have been separated, the provinces have to keep their own balances with the Reserve Bank and in the treasuries. Each of them has entered into an agreement with the Reserve Bank, prescribing the minimum balance to be maintained For instance, Madras has to maintain Rs. 40 lakhs with the Reserve Bank and about Rs. 15 lakhs in the provincial treasuries, and on this no interest will be obtained. The provinces now own the cash in the provincial treasuries, and must watch their daily credit balance with the Reserve Bank. This involves making reasonably accurate forecasts of receipts and outgoings from day to day. A temporary need for additional resources will be met either by taking ways

and means advances from the Reserve Bank up to a prescribed maximum or selling in the open market treasury bills repayable after a period not exceeding twelve months [1] The Governments of Madras, the United Provinces, the Punjab, the Central Provinces and Assam have already sold treasury bills

§3. *Financing of the New Constitution*

The introduction of the new Constitution entailed various additional charges on and losses to the Government of India, due partly to provincial autonomy and partly to the separation of Burma. The latter may be taken first.

The general effect of the separation of Burma was a net loss under customs revenue, central excises, income-tax and salt, estimated at Rs. 3,25 lakhs for 1937-8, and a net reduction of expenditure estimated at Rs. 92 lakhs, thus involving a net loss to the central Government of Rs 2,33 lakhs On the revenue side, the estimated loss came to Rs 6,61 lakhs, but it was partly made up by the annual payment to be made by Burma, under the Amery Award, namely . (1) the annuity estimated at Rs. 2,29 lakhs payable by Burma for the next 45 years in respect of the debt and other liabilities transferred to it, and (2) Rs. 94 lakhs in respect of Burma's liability in respect of pensions in course of payment on 31 March 1937. This latter was the first of a series of annual payments which will diminish gradually to zero over a period of 20 years. The annual payment under these two items was estimated at Rs. 3,23 lakhs, but the actual amount came to only Rs. 3,05 lakhs, and thus the net loss on account of the separation of Burma increased to Rs 2,51 lakhs.[2]

The separation of Burma has also led to other adverse results. Burma has long enjoyed a favourable balance of trade with the rest of the world and this helped to swell the favourable balance of India before the separation. An analysis of the trade balances for the ten years before separation shows that Burma contributed annually about Rs 30 crores on an average to India's favourable balance. In the years 1932-3, 1934-5 and 1935-6, the favourable balance was reduced to small figures, and, if Burma is excluded, India's balance was unfavourable to the extent of Rs 22·6 crores, Rs. 8·1 crores and Rs 3·2 crores respectively. A reduction in the favourable balance of trade is bound to affect the exchange position adversely, but so long as the Reserve Bank of India controls the currency and credit of both countries, Burma's favourable balance of trade will help to support the exchange value of the

[1] Summary of the account given in the Budget Memorandum of the Madras Government, 1938-9, pp. 23-31.

[2] Finance Member's Budget Speech (1937), p 6, (1938), p 2, Finance Secretary's Memorandum (1937), pp 75-7.

Indian currency. In the long run, however, Burma may make independent arrangements and India will then have to rely solely on her own trade balance for maintaining exchange and managing remittance transactions

The inauguration of Provincial Autonomy involved additional liabilities for the central Government in many ways. Previous to 1937, half the jute export duty was paid to the provinces exporting jute, and subventions were given to deficit provinces. Under the Order in Council of 3 July 1936, additional payments are made from the proceeds of the jute export duty, subventions to the deficit provinces have increased, and in addition part of the debts owed by the provinces has been cancelled (as explained already) Further, the interest charges due to the central Government have been reduced by Rs 90 lakhs. The total of the additional charges was estimated at Rs. 1,85 lakhs, but the actual amount for 1937-8 came to Rs. 1,98 lakhs These additional charges together with the separation of Burma entailed a loss to the central Government of Rs. 4,49 lakhs in 1937-8.

Under the Niemeyer Award, the provincial share of the net divisible revenue under Income-tax (other than corporation tax) during the first five years after the introduction of Provincial Autonomy was made to depend largely on the Railways obtaining a surplus As they saw no immediate possibility of this, the provinces despaired of obtaining any portion of the income-tax revenue for some years However, the position of the Railways improved earlier than was anticipated In the year 1937-8, the net surplus of the railway revenues amounted to about Rs 2,83 lakhs. After deducting from the income-tax revenue of Rs 13,50 lakhs the amounts attributable to the collections in central areas, the tax on salaries paid from central revenues and the cost of collection, there remained Rs 11,55 lakhs To this was added the amount of the railway surplus and from the combined total was deducted Rs. 13 crores, and thus the amount distributable to the provinces was estimated at Rs 1,38 lakhs This was distributed among the provinces in the proportions already prescribed

The heavy task of financing the new Constitution during a very trying period fell on the shoulders of Sir James Grigg. He held before himself two principal aims starting the new provincial Governments on an even keel and providing money for rural development It must be said to his credit that he has achieved considerable success in regard to both these aims. By a careful husbanding of resources, he was able to make substantial grants to the backward provinces and to remit a large portion of the debt due to the central Government from the needy provinces. He also made considerable grants to the provinces for rural development All this he did in a period of unexampled economic difficulty and financial strain.

§4. *Provincial Autonomy in Operation*

Provincial Autonomy has been in operation for the last two years. The autonomous provincial Governments have already presented three budgets and, although it is too early to make more than a preliminary estimate of the results of Provincial Autonomy, a general account may be given here of the financial measures carried out by them so far (till April 1939).

The new provincial Governments have shown great activity during the first two years of their tenure Economic amelioration has been their chief preoccupation, and this was particularly marked in the provinces where the Congress party came into power Debt and drink were the two principal evils that they immediately proceeded to tackle Measures for the mitigation of rural debt had already been initiated in most provinces, and positive measures of rural improvement had also been initiated, especially in the United Provinces, Bengal and Bombay. With the inauguration of Provincial Autonomy, measures of rural uplift received a great fillip Hitherto, debt had been tackled chiefly by following the conciliation method which was first instituted by the Government of the Central Provinces With stronger governments in office in all the provinces, it was found possible to apply more drastic remedies Madras led the way with a bold scheme for the scaling down of agricultural debts and certain other provinces followed suit. Not only are the new governments trying to eradicate crying evils, they are also endeavouring to promote the economic welfare of the masses by positive measures Thus the Government of the United Provinces launched a comprehensive scheme of rural improvement involving the appointment of several hundreds of paid rural workers for an intensive uplift campaign A Rural Development Bill is also under contemplation in that province. Bombay has adopted a new scheme of rural development by which a paid rural worker will be appointed for a compact group of villages to assist in the work of panchayats and co-operative societies Madras has passed a comprehensive Public Health Act and is proceeding to place rural credit on a secure basis. In other provinces also, grants have been made for the supply of drinking water in the villages, for the improvement of public health and for the encouragement of cottage industries. Many of the provinces have instituted funds earmarked for certain specific purposes connected with rural improvement with a view to placing their ameliorative schemes on a firm basis, not subject to the vicissitudes to which financial policy is liable in this country. Among these efforts at planned expenditure are the rural water supply fund of Madras, the village development fund of Orissa, the special development fund of Bombay and the road fund of the United Provinces Nor are the provinces under non-Congress ministries lagging behind In the Punjab a rural

development fund has been instituted, the amount earmarked being Rs 61 lakhs, and in Bengal, in spite of financial difficulties expenditure on nation-building services has increased.

In the campaign against drink, however, only the provinces under Congress Governments have taken drastic action. In nearly all of them a policy of prohibition has been adopted and in four of them it has made real headway Madras was the first province to place a district containing 2½ million persons (Salem) under prohibition; Bihar, Bombay, the United Provinces and the Central Provinces followed suit While most of these provinces are pushing on prohibition in rural areas, Bombay has introduced it in the towns, and that province is now proceeding to bring the populous city of Bombay under prohibition

The ameliorative schemes mentioned above did not involve very great expenditure, but prohibition is a costly venture, especially in provinces like Madras and Bombay where the excise on drink and drugs contributes a large part of the provincial revenues. Thus while the provincial excise brought in only Rs. 1·33 crores in 1935-6 in Bengal (population 50 millions), it contributed Rs. 3·33 crores in Bombay (population 20 millions), Rs. 4 crores in Madras (population 46 millions), and Rs 1 crore in Bihar (population 32 millions). It forms roughly 11 per cent of the total provincial revenue in Bengal, 30 per cent. in Bombay, 25 per cent. in Madras and 30 per cent in Bihar. Madras has already relinquished a revenue of about Rs. 60 lakhs, Bombay gave up only Rs. 30 lakhs in the first year, but is now proceeding to abandon a further Rs 150 lakhs, leaving only Rs 140 lakhs of provincial excise revenue Thus prohibition has made serious inroads into the public revenues of these provinces But the loss of revenue is not the only burden on the budget arising from the prohibition policy In many areas much money will have to be spent on additional police It may be that the elimination of the use of alcoholic drinks will eventually lead to an increase of economic welfare and therefore of taxable capacity, which the provinces will ultimately be able to tap, but this will take a fairly long time The immediate result is a large loss of revenue and the prohibition policy therefore amounts to a 'self-denying ordinance'

Nor is this all Land revenue, which has so far been the mainstay of the provincial fisc, is a highly inelastic source of revenue and land cannot be expected to shoulder any more burdens On the other hand, there is a general expectation that the revenue burden, at least on the smaller landholders, will be reduced. The first act of the new governments in most provinces was to give land revenue remissions; in Assam 33⅓ per cent. of the old demand was remitted, and in Madras a remission of Rs. 75 lakhs was granted. In Bombay the remissions were given only to the smaller landholders, and this is as it should be Thus land revenue will not be able to bear any added burdens

for the provincial governments, on the other hand, the revenue under this item may even fall.

In these circumstances, the provinces found it necessary to look for aid in other directions. They first turned to retrenchment. There is perhaps some scope for further economy in provincial expenditure; but it would require a thorough reorganization and rationalization of the administrative system. They found this difficult, and therefore they turned to a cut in salaries. There again, they found themselves unable to modify the salaries and allowances of the superior services. All that they could do was to cut down the salaries of the provincial and subordinate services under their control Some provinces are trying to get over this difficulty by imposing an employment tax In other provinces, the salary cut is still under contemplation. A graded cut in the salaries of the provincial services was proposed in Madras, but eventually it was restricted to a cut in the salaries of new entrants and of persons promoted to posts carrying salaries above Rs. 100 a month, and the resulting savings will accrue only gradually.

As the scope for retrenchment was limited, most provincial Governments found it necessary to resort to fresh taxation. Various taxes have been considered Succession duties on land and taxation of agricultural incomes are now provincial subjects, but most provinces seem to fight shy of them Bombay, Bihar and Assam are, however, proposing to tax agricultural incomes. The United Provinces Government intends to levy an employment tax, Bombay a property tax (confined to Bombay City), and Bengal a profession tax. In some provinces taxes on entertainments, marriages and crossword puzzles are under contemplation, but these are minor items. The most important source proposed is the sales tax which has assumed many forms In Bombay a sales tax on tobacco sold in urban areas and on cigarettes had already been levied; a sales tax on cloth is now proposed. Madras is proceeding to levy a sales tax and a licence duty on tobacco Even before the dawn of autonomy, Bengal had levied a tax on the sale of electricity, and a similar tax has since been levied in Bombay, Sind and Madras The Central Provinces and Madras, followed by other provinces, have imposed a sales tax on petrol and lubricating oils Madras has also decided to levy a general sales tax (or turn-over tax)

This brought about a clash between the central Government and the provinces It is true that taxes on the sale of goods form one of the sources of revenue allotted to the provincial governments under the Government of India Act, 1935, but sales taxes tap nearly the same source as excise, which is a central head of revenue. When the Central Provinces passed the Sale of Motor Spirits and Lubricants Taxation Act, 1938, the central Government made a reference to the Federal Court under

Section 213 of the Government of India Act as to the legality of this legislation The central Government contended that a sales tax on goods produced in India, at whatever stage it might be levied, came within the scope of item 45 of the Federal Legislative List (excises) and that the provincial legislature could not invoke its power under item 48 of the Provincial Legislative List (taxes on the sale of goods). The Government of the Central Provinces contended that, by force of Section 100 of the Act, item 45 of the Federal Legislative List must yield place to item 48 of the Provincial List Six other provincial Governments, which were then contemplating the introduction of similar taxes, supported the case of the Central Provinces Government It was argued on behalf of the provinces that an excise is a tax levied immediately on production and at any stage up to the time of the first sale but not thereafter The Government of India, however, contended that an excise could be levied at any stage including the final sale before consumption, and that the provincial tax in question was an invasion of item 45 of the Central List In their judgment, the Federal Court unanimously held that the Act of the Central Provinces Legislature imposing a sales tax on petrol and lubricating oils was not *ultra vires* Whether this is a final settlement of the matter is not certain, but most provinces have proceeded to levy sales taxes in one form or another It is feared that the employment tax proposed in the United Provinces will also create similar difficulties, as it involves not only the question of concurrent taxation but also the special responsibilities of Governors.

The judgment of the Federal Court has created various misgivings It has established a concurrent power in the sphere of internal indirect taxation No doubt, the Chief Justice of the Federal Court has emphasized the need for mutual forbearance in this matter, and this on two important grounds. He feared that the simultaneous exercise of the Centre's right to levy excises and the provinces' right to levy sales taxes might raise the price of the article taxed to a height at which consumption would be seriously curtailed He also reminded the provinces that, in the absence of mutual forbearance, the ability of the Centre to continue devolutions, and to make new devolutions, to them under Section 140 of the Act would be jeopardised As has already been shown, it is essential in the best interests of India that the central Government should have adequate revenues. As time advances and India's political status rises, the central Government's need for resources will naturally increase Not only the growing complexities of defence but also the equally pressing need for co-ordinating the nation-building services will add to the financial burden of the Centre, especially when the Federation comes into being.

CHAPTER XXXIII

INDIA'S FINANCIAL SYSTEM: RETROSPECT AND PROSPECT

WITH the inauguration of Provincial Autonomy in 1937, India entered on a new career. This brought to a successful termination the development which had been going on since 1860. When India emerged from the Mutiny of 1857, the provinces were but the local administrations of a highly centralized government and they had no separate finances of their own. This relationship between the central Government and the provinces was found to be unsatisfactory to both, and step by step the financial status of the provinces was raised until, in 1919, the revenues of the provinces were separated from those of the central Government. But financial control was still vested in the Secretary of State. Part III of the Government of India Act of 1935 provides for full Provincial Autonomy, and now that this part of the Act has been put into effect, the relation between the central Government and the provinces has become federal. The idea of an Indian Federation was conceived as early as 1867, but it was then premature [1]. The federal system has gradually evolved and therefore it is a natural growth. This evolution has been briefly traced in this treatise. In this concluding chapter, we will take a retrospective view of the Indian financial system and outline its prospects.

§1. *Some Important Features: Conservatism*

The predominant characteristic of the Indian financial system is its conservatism. Certain general principles of taxation were adopted by the East India Company, following Mughal tradition as modified by British principles, and the groundwork thus laid has been maintained intact till recent times, in spite of the great changes in the economic circumstances of the country. 'India is no place for sensational or empirical finance', said Massey in 1868. The same opinion was shared by nearly all the great statesmen who built up the British administrative system in India in the nineteenth century. The idea of imposing an income-tax was disapproved for a long time, and bitter controversies raged over it. There was a similar attitude to death duties and other direct taxes, which might not fit in well with the social usages of the country. No doubt this was partly due to the influence of

[1] See chapters vi and xii

the British tradition of conservative finance, but the position of the rulers as outsiders also served as a powerful incentive to conservatism. This explains the Government's extreme reluctance to venture on new experiments in raising revenue. Taxation was kept down to the bare minimum required for external defence and internal order. The land revenue was long the mainstay of Indian finance and it is significant that the machinery for land revenue collection has also been the agency for preserving law and order in the land

One result of this conservatism has been the comparatively low tax-burden on the people. It is customary to show this by comparing the revenue per head of population in different countries, but this is misleading as it does not take into account the income from which it is paid To weigh tax-burdens is extremely difficult. A comparison of the total tax-revenue with national income may be more indicative of the burden of taxation, but we have no very accurate estimates of national income and it is even doubtful if any such estimate can be made for a country like India Further, international comparisons of financial statistics are often misleading, as budget heads vary from country to country and even the budget year is not uniform for all countries. It is, however, possible to make a rough comparison of the financial positions of different countries. The following table showing what proportion the Government revenue bears to the national income in different countries may be helpful

National Income and Revenue Burden in a few leading countries (1933-4)

Country	Population[1] (Millions)	Revenue (£ Millions)	National[2] income (£ Millions)	Revenue per head £	Percentage of revenue to national income
United Kingdom ...	46 3	809	3,500	17 5	23 1
U S.A	122 7	1,250	10,956	10 2	11 5
France . ..	41 8	367	1,693	8 8	21 7
Germany ..	66 0	228	2,448	3·5	9·3
Italy	42·2	176	972	4 2	18·1
Australia ..	6 6	74	650	11 1	11 4
Canada .	10 3	68	1,219	6 6	5·6
India (British)	273 6	166	1,203	0 6	13·8

A comparison of the tax-revenue with the national income may give a better indication of the tax-burden than the usual per capita estimates, but even this fails to give any clear idea about the real burden borne by the different sections of the people. For a proper

[1] According to Census, mostly of 1931.
[2] Estimate by Findlay Shirras, see *Science of Public Finance*, vol. I.

estimate of the burden of taxation, we have to take into account the taxes borne by different classes or economic groups of the country; it is possible that, while the burden per head may be low as compared to the income per head, the burden borne by certain groups may be high and that of others may be low. In other words, the incidence of taxation may be unequally distributed as between the various economic groups, and in so vast a country as India such inequalities are difficult to demonstrate.

In order that we may estimate the burden of taxation on different economic groups, we need accurate statistics of the income, consumption standards and general economic conditions of the various classes of people. Such statistics are not available in India. Family budgets of urban working classes have been collected in various parts of the country, but they have not been made up on a uniform plan; and the accuracy of the budgets cannot be said to be of a very high order. There is a real need for an inquiry into the incidence of taxation in India, and it must be done with great care.

In 1925, the Indian Taxation Enquiry Committee gave some attention to the question of incidence and arrived at certain general conclusions with reference to the following four classes

A *Labouring Classes.*—(1) Urban labourers including the lower grades of urban artisans. (2) Landless agricultural labourers and the lower grades of village artisans.

B *Landholders.*—(3) The small landholder whether ryot or tenant. (4) Peasant proprietors with substantial holdings, generally in ryotwari areas. (5) Large landholders, generally in zamindari areas.

C. *Businessmen.*—(6) Petty traders in villages or towns. (7) Larger traders, generally in towns, subject to the income-tax. (8) Big merchants

D. *Professional Classes.*—(9) The clerical group, i.e. the subordinate ranks of Government services and the lower ranges of professional men not subject to the income-tax (10) Upper professional classes

It was estimated that the urban labourers contributed Rs 8-7-7 per head to the public revenues, of which Rs. 2-13-4 went to the central and provincial Governments and Rs. 5-10-3 to local bodies. The contribution to the former was estimated as follows : salt 3 as 5 ps., customs duties on consumption goods 7 as. 6 ps., customs duties on production goods 2 as. 9 ps., excise duty on kerosene oil 6 ps., excise duty on cotton goods 1 anna 2 ps., and excise duty on intoxicants Re. 1-14. The corresponding burden on the landless agricultural labourers was estimated at Re. 1-10-11, of which 9 as 9 ps. went into liquor excise and 7 as. 6 ps. into customs duties on consumption goods. It was not found possible to make similar estimates in regard to the other classes of people mentioned above.

In the Committee's opinion, rural labourers bore a lighter tax-burden than urban labourers. The small-holder was in a rather unenviable condition although not entirely due to taxation, but the peasant proprietor with an economic holding was not so badly off. The large landholders were even better off. Some of the landed gentry were indeed in adverse circumstances, but that was not due to the burden of taxation. The small trading classes both in the town and in the countryside had only a comparatively light tax burden to bear The urban traders were liable to municipal profession tax, but there was no similar burden on village traders The big merchants had to pay income-tax, but the burden of that tax was not so heavy as was being borne by their compeers in other countries. The lower professional classes had been hit by a rise in the cost of living after the War, but the higher professional classes were in about the same position as the big merchants [1]

Since 1926 various changes have taken place in the tax-burdens on the different classes. The excise on cotton piecegoods has been abolished The rates of the import duties have increased and the income-tax rates have gone up. Perhaps the price slump of 1930-3 was the most potent influence On the one hand, the burden of all fixed charges, e g land revenue, interest payments, and rents, has increased. The burden of provincial excises, court fees, registration charges, etc , has also increased. On the other hand, the prices of most consumption goods have fallen and to that extent the burdens of customs duties and excises have become lighter It is true that the advantage of the fall in prices has not been fully reaped owing to the imposition of high protective duties on articles of common consumption like sugar, cotton piecegoods and iron goods, but even so there has been a substantial fall in the price of most consumption goods; thus the cost of living has fallen and the burden of commodity taxes has become lighter. But the incidence of the liquor excise still remains grossly regressive, and that of land revenue is unduly burdensome on certain classes. After the price slump of 1930, this burden became heavier The trading classes in town and country are still let off with rather light tax-burdens, especially those not assessed to the income-tax; but the smaller landholders (especially those who grow no commercial crops) are heavily burdened and the remissions recently made have not materially lightened that burden. It cannot be said, however, that India is a country of high taxation. The larger incomes in India, whether from land or from business, have so far contributed a smaller proportion to the public fisc than similar incomes elsewhere. As Sir Walter Layton points out, 'There are still large accumulations of wealth on which the burdens of government rest very lightly', and this is greatly due

[1] *Report of the Indian Taxation Enquiry Committee*, pp. 840-50.

to the conservative financial policy consistently followed by the Government hitherto

One noteworthy feature of our financial system is that, while in several leading countries the revenue from direct taxes has been increasing and that from indirect taxes falling, India shows quite a different trend In 1913 the revenue from indirect taxes amounted to 53 per cent. of the total revenue, but by 1929-30 it had risen to 64 per cent , while in the meantime, the revenue from direct taxes fell from 47 per cent to 35 8 per cent. A shift from direct to indirect taxation is generally regarded as increasing the burden on the poor, but this may not be quite as true of India, seeing that most of the imports which bring in our customs revenue are not articles of common consumption Further, in regard to many commodities, it is not clear what influence tariffs have on prices. The conclusions of the Taxation Enquiry Committee quoted above are of doubtful validity, at any rate today On the other hand, even some of the direct taxes of India press heavily on the poor The bulk of the revenue from land—our principal direct tax—comes from small landholders cultivating fragmented parcels of land, and the great majority of the landholders do not possess an income assessable to income-tax That the burdens on the poorer sections of the community are comparatively heavy in India is beyond doubt, but it may be conceded that in a country where the great majority of people are extremely poor the bulk of the revenue must come from such people whether as direct or as indirect taxes

§2 *The Low Burden of Public Debt*

Another result of financial conservatism has been the reluctance to spend borrowed money Up to 1867 there was comparatively little borrowing except for the purpose of balancing the budget in times of war, and even large public works of a highly remunerative character were financed from revenue After 1867, loans came to be raised annually for capital undertakings, but so strict were the canons applied that only works of a highly remunerative character were deemed fit to be thus financed Borrowed funds have generally been spent only on railways and irrigation works which were expected to yield a normal return on the capital invested, and other works have been financed from revenue Thus the productive debt has been increasing, but it has imposed little burden on the tax-payer. The ordinary or unproductive debt gradually diminished as a result of various skilful measures, and it practically disappeared by 1916. The War and the budget deficits in the years just after the War swelled the unproductive debt, but Blackett's debt redemption scheme brought it under control. After the War a more liberal borrowing programme was adopted by the Government for railway development and the productive debt

increased rather quickly. In spite of this the total public debt of India was only Rs 1,239 crores on 31 March 1935, which is hardly six times the total annual revenue of India, central and provincial. Some of the Great Powers are bearing a much larger burden; in the United Kingdom the public debt is about 9½ times the revenue, and in France it is eight times. In reality the position of India is much more favourable than is indicated by these proportions; while the great bulk of the debt in other countries is unproductive, only about 20 per cent of India's public debt can be placed in that category. As much as 80 per cent. of the debt is covered by interest-yielding assets or is money lent to provinces or Indian states. Of the balance, which is about Rs. 250 crores, a considerable part is covered by tangible assets like public buildings and other properties. Hardly any other country in the world can claim such a favourable debt position, and this is the result of the Government's perpetual caution. A comparison of the figures for India with those for some other countries will show what a great advantage India has in this respect.

The Public Debt of Different Countries[1]

Country	Year	Total debt (000,000's)	Debt as a multiple of revenue	Debt charges (000,000's)	Debt charges as percentage of total expenditure	Debt per head (in £)
United Kingdom (£)	1936	7,901 6	9 4	224 0	26 6	170 45
United States (Dollar)	1936	33,545 1	8 2 8 2	1,239 5	11 0	56 21
France (Franc)	1935	3,33,142 7	2 1	10,959 1	27 2	64 11
Germany (Reichsmark)	1934	12,407 1	5 8	576 3	9 2	9 20
Italy (Lira)	1936	1,08,636 6	3 9	5,966 7	29 5	27 83
Japan (Yen)	1934	8,682 6	11 8	505 5	23 1	13 01
Australia (£)	1936	1 255 8	9 2	44 9	12 3	188 08
Canada (Dollar)	1936	3,431 9	0 3	140 3	37 0	68 05
U S S R (Rouble)	1933	13,955 9	5 8	1,702 1	4 8	3 20
India (Rs)	1936	12,098 0		155 1	7 4	3 32

As will be clear from the above table, the interest charges on our public debt are lighter than in the case of most other countries. In fact, the income from the commercial departments and other interest-yielding assets is sufficient to pay the whole of the interest on our total public debt. The interest charges on ordinary debt increased during and after the War, but by careful management and by successful conversion operations, the charges have since been reduced, thanks to the sound policy pur-

[1] Compiled from the Statistical Year Book of the League of Nations, 1936-7. (The figures for India are from the Statistical Abstract for India, 1936.)

sued in the last few years by Sir George Schuster and Sir James Grigg. It must have been rather hard to follow such an orthodox policy in a time of depression, but the results are most encouraging. The credit of India stands high and not only the Centre but the provinces are able to borrow at low rates of interest. The provinces are now entitled to borrow on their own account; most provinces have used the right carefully, and have not piled up debt for unproductive purposes

§3 *Inadequate Expenditure on Social Services*

A third result of the Government's conservative financial policy is the comparatively low level of expenditure on social services It is true, as has been shown already in Chapter I, that the proportion of expenditure on the security service has been diminishing whilst that on social welfare has been increasing, but it cannot be said that the increase in the proportion spent on the latter has been so great as to adjust the balance properly between the two classes of expenditure The proportion of defence charges to total expenditure is still high in India as compared with most other countries and that of social welfare charges low. In the following table, an attempt is made, with the imperfect material at our disposal, to indicate the incidence of the expenditures on defence and on social welfare services (including education), in various countries in the year 1933-4 [1]

Expenditure on Defence and Social Services in Different Countries (1933-4)

Country	Total expenditure (000,000's)	Expenditure on defence (000,000's)	Percentage of total expenditure	Per head	Expenditure on Social Welfare (including education) (000,000's)	Percentage of total expenditure	Per head
				Rs as ps			Rs as. ps
United Kingdom (£)	778	107	13 8	30 12 8	201 8	25 9	57 15 10
France (Franc)	49,883	10 192	20 4	26 2 1	6,620	13 3	16 14 11
Germany (Reichsmark).	6,189	749	12 0	7 5 4	1,372	22 2	13 9 7
Australia (£)	61 7	22 6	31 9	15 1 0	11 3	17 5	22 8 6
Canada (Dollar)	148 5	13 1	3 0	3 9 7	19 7	11 1	13 3 2
India (Rs.).	2,053	142	21 5	1 10 1	17 5	8 5	0 10 5

Thus India spends a larger percentage of its revenue than most other countries on defence, although the burden per head

[1] Compiled chiefly from *Public Finance*, 1928-37, (League of Nations) Geneva 1938.

is much lower here On the other hand, the expenditure on social services in India is a smaller percentage of total expenditure than in other countries, and the expenditure per head on such services is extremely small Nor is this the whole picture; for, in many of the countries mentioned, large amounts are also spent by local bodies on social services. Especially in regard to education, local expenditure is a very important factor in most countries This is not so in India; here local expenditure on social services forms only a small proportion of the total expenditure on those services. The brunt of the burden in India is borne by the central and the provincial Governments.

It is not necessary to resort to any statistical comparisons to see that the expenditure in India on the social and economic services—education, public health, agriculture, poor relief etc.—is altogether inadequate. The appalling facts of illiteracy and ill-health stare one in the face wherever one may turn. After nearly a century of state effort in education, only about 7½ per cent of the population are literate The death-rate is 25 per thousand, and the average expectation of life at birth is 26 years In hardly any other country is infantile mortality so terribly high as in India, 187 per thousand births The toll of plague, cholera and small-pox is still heavy, and housing conditions in villages as well as towns are really shocking A large number of people in the country are still far below the poverty line and have not the wherewithal for a bare subsistence. According to Sir John Megaw, formerly Public Health Commissioner with the Government of India, 'taking India as a whole the dispensary doctors regard 39 per cent of the people as being well nourished, 41 per cent poorly nourished and 20 per cent. very badly nourished' The condition of town labourers is not much better than that of rural labourers A large proportion of them are under-nourished and badly housed State action has so far touched only the bare fringe of social welfare

§4 *Need for a New Economic Policy*

It cannot be denied that the main emphasis of the Indian financial system has hitherto been on the provision of funds for external defence and internal security It is true that, largely from a desire to avert the horrors of famine and partly under the influence of new economic ideas, irrigation works have been carried out, roads and bridges have been constructed, and improvements in agricultural methods have been attempted and efforts have been made to increase literacy and improve public health; certainly, these efforts have gathered *momentum* since 1920. But progress has been far too slow and the results have not been very satisfactory so far No doubt, the Government's efforts have greatly benefited the urban population, especially business men

and professional classes, but the agricultural population are still steeped in ignorance and poverty.

The world economic crisis of 1930 gave a rude shock to the *laissez-faire* policy of the Government, and both the Centre and the provinces became keenly interested in counteracting the effects of the depression After the arrival of the Marquess of Linlithgow as Viceroy, these efforts have gained momentum Sir James Grigg also took great interest in this matter, and the grants made by him for rural development were timely With the inauguration of Provincial Autonomy, economic uplift has become the prime concern of Governments in India As already shown, the provincial Governments are giving a great deal of attention to the development services The problem, however is extremely complex and progress is bound to be slow The following table gives statistics of the expenditure of the provincial Governments on the principal development services (education, medical and public health, agriculture and veterinary, industries, co-operation and scientific departments) in the years 1937-8 (accounts) and 1939-40 (budget)

Expenditure on nation-building services in the Provinces in 1937-8 and 1939-40

	Population (1931)	Expenditure 1937-8	Percentage of total expenditure	Expenditure in 1939-40 (Budget)	Percentage of total expenditure	Percentage increase or decrease	Expenditure per 1,000 of population (1939-40)
	millions	(lakhs)	%	(lakhs)	%		Rs
Madras ..	41 5	4,52	30 12	4,67	28 65	+3 3	1,019
Bombay ..	18 0	2,54	20 75	3,29	25 65	+29 5	1,828
Bengal ...	50 1	2,65	22 37	3,35	22 94	+26 4	669
United Provinces	48 4	3,16	25 72	3 99	29 20	+26 6	824
Punjab ...	23 6	3,09	26 98	3,14	28 83	+11 3	1,458
Central Provinces	15 5	95	20 44	1,02	21 18	+7 4	658
Bihar ..	32 4	1 31	27 23	1,49	28 39	+13 8	460
Orissa ...	8 3	12	21 30	47	23 49	+11 8	566
Assam ...	8 6	69	24 99	73	24 19	+5 8	849
Sind ...	3 9	50	14 21	55	14 64	+9 6	1,410
N -W F P ...	2 4	35	19 84	40	21 75	+14 5	1,667

It is clear that the expansion of the nation-building services has not been phenomenal It is possible that the rationalization of existing services may even curtail expenditure in the first instance. But a vigorous campaign for economic uplift is expected from the autonomous provincial Governments. The essential preliminary for such a campaign is the formulation of suitable plans.

This is not the place to elaborate an economic plan for India. In my view the main objective of economic policy in India must

be the raising of the standard of living of the people, and this can only be done by an effective campaign against ignorance, dirt, debt and disease, which are the principal causes of India's poverty. The common people in the country today have only a miserable existence, since they lack most of the amenities which make life worth living Although a multiplication of wants is not the prime essential for a higher standard of living, an increase of material comforts is bound to follow an improvement in the quality of life With the present standard of living the demand for consumable commodities is extremely limited, and there are obviously rigid limits to industrial expansion in a country which consumes only 15 yards of cloth and not more than 20 lb of sugar per head per annum But with a rising standard of living, industry will have great scope for development, employment of all kinds will increase, the national income will expand, and the Government revenue will rise to a much higher level Nor will the results be confined to India Even a moderate rise in India's standard of living would enable her to take a much larger share in international trade, and this would be a distinct contribution towards solving the economic problems of Europe and America

A change for the better in India's economic life has become essential, even for security Hitherto the masses have been in a state of placid, pathetic contentment; but lately they have been awakening from their slumbers and are anxious for an improvement in their material conditions If their aspirations are met in time, India's economic life can be improved, the Indian will become a more efficient worker and a better citizen, and this country will become a helpful partner in world economy If these aspirations are neglected undesirable consequences may follow Economic unrest has too often led to political troubles 'Great economic and social forces' wrote Morley, 'flow with tidal sweep over communities only half conscious of that which is befalling them Wise statesmen are those who foresee what time is thus bringing and try to shape institutions and to mould men's thought in accordance with the change that is saliently surrounding them' Such opportunities do not come often in the history of nations The well-known lines of Shakespeare are apposite

> 'There is a tide in the affairs of men,
> Which, taken at the flood, leads on to fortune;
> Omitted, all the voyage of their life
> Is bound in shallows and in miseries
> On such a full sea are we now afloat;
> And we must take the current when it serves,
> Or lose our ventures'

Similarly also in the affairs of nations Hence the urgent need for devising a suitable economic policy and putting new life into the Government's social and economic services.

Our whole administrative activity must therefore be directed to the central aim of raising the standard of living of the masses Hitherto the social utility services have been mere ornaments on the administrative edifice; in future they must become the superstructure This may involve an expansion of these services; in some cases, a reorganization may be sufficient to increase the efficiency and usefulness of their work In many cases, the creation and stimulation of voluntary effort would be the proper step. It is certain that expenditure on the development services must greatly increase, at least for a time The improvement of our agriculture and marketing, the cleaning-up of our villages, the eradication of malaria and other diseases and the regular supply of water both for drinking and for crops—all these call for more intense activity on the part of Government The task is indeed a colossal one

At the same time, we must guard against the State doing too much Stable social improvement can only come from the work of voluntary agencies and the operation of a strong public opinion All that the State must do is to remove hindrances to economic progress and to prevent the exploitation of the weak by the many powerful intermediaries that abound in the economic system of the country In our present circumstances, benevolent State action is necessary and it must be strong and undaunted by the opposition of vested interests With the spread of education, the common people will become better able to look after their own interests, and the sphere of voluntary organizations will increase.

The execution of a vigorous economic policy may involve additional expenditure, but a large part of this can be obtained by rationalizing the existing administrative machinery The departmental system of British India has grown up in a haphazard manner Time after time the various departments were reorganized, especially during the prosperous years early in the century when heavy budget surpluses were common; and reorganization generally meant large additions to establishment Thus the expenditure on police, judiciary and other security services expanded greatly The importance of law and order must not be under-estimated, but there is no doubt that its cost in India is unduly heavy The system of judicial administration is based on exotic methods and principles, and some of the ablest administrators of the country have considered it unsuitable and wasteful It has increased litigiousness, aggravated indebtedness and has contributed not a little to the decay of our village autonomy A radical simplification of the legal and judicial system is urgently needed, and this will greatly reduce expenditure also Even in the nation-building services, there is room for rationalization and although the work of these services must greatly expand, they can be made to carry out more intensive work without a great

increase in cost The departments of agriculture, industries, co-operation and labour are all engaged in the economic uplift of the people and if their work is to be effective, they must function in intimate co-ordination, and perhaps this co-ordination can be best secured by linking them up again with General Administration. Such a reorganization should not only reduce cost but also increase the efficiency of the agencies that are engaged in the work of economic uplift

§5 *Reorganization of the Tax-system*

It is clear from the foregoing that the fiscal needs of the State in India are not likely to fall in the near future , on the other hand, there is every indication that more revenue will be required to meet the cost of the ameliorative activities that the provincial Governments have recently launched Therefore fresh taxes will have to be levied, and the old taxes must be nourished so as to yield more revenue But this policy must be so applied as to rectify the inequalities in incidence of the existing taxes The fresh taxes levied should be utilised partly for replacing old ones which are at present unduly burdensome to certain groups in the community

As has been explained above, the present tax-system of India contains many inequalities and inequities. Although the average tax-burden in India is not heavy, the brunt of it falls too heavily on certain classes, e g the smaller landholders and labourers, and too lightly on others, e g the larger landholders, business men and the urban middle classes generally The following points are noteworthy (1) the comparatively heavy burdens on land and light burdens on industry and business, (2) the high import duties which prevent a fall in the cost of living, (3) the inequalities of incidence on the different classes of landholders, and (4) the regressive nature of the provincial excises Some reforms in these matters have lately been carried out or are under contemplation The Income Tax Amendment Act (1939) has removed the principal defects of the Indian income-tax system, and this, together with the imposition of death duties lately under consideration, will greatly rectify the inequalities of burden between different capitalist groups The reform of the import tariff may soon be taken up by the central Government, and it is expected that the Economic Adviser will help in this work. As for the land revenue system, a reorganization of it is being considered by the provincial Governments The adoption of a policy of prohibition in the provinces may remove the burdens hitherto laid by liquor excise on labouring classes, and care should be taken that the taxes which replace the liquor excise are less regressive in their incidence

Income-Tax

The need for tightening up the income-tax regulations and improving the machinery for collection has been felt for many years, but the efforts made from time to time were not very successful. In spite of the Amendment Act of 1930, much evasion and 'legal avoidance' were still practised. Immediately after his arrival, Sir James Grigg was impressed with the need for a thoroughgoing reform of the system, and an expert Committee of three was appointed in 1936 to go into this matter. Two of the members were persons with long experience in the office of the Board of Inland Revenue in London. The Committee in their Report suggested various measures for steepening the progression and making the collection more efficient and thus increasing the revenue from income-tax without adding to the burden on the great majority of the tax-payers. Legislation on these lines was carried out in 1938-9. The following are the principal changes introduced:

(1) *The 'slab' system.*—Under the old system, all incomes between Rs. 2,000 and 5,000 paid 6 pies in the rupee and incomes between Rs. 5,000 and 10,000 paid 9 pies, and so on. This is called the 'step' system because the percentage of income taken away by the income-tax rises sharply by steps from one figure to another (from 0 to 6 pies, from 6 pies to 9 pies, etc.). Under the 'slab' system that is now introduced, the percentage moves up not by jumps but smoothly, each extra rupee of income pushing the percentage up very slightly. Evidently this is more equitable. The fixing of the rates rests with the central Government and their proper place is the annual Finance Bill. The general result is that incomes up to Rs. 8,000 will pay less, whilst of incomes between Rs. 8,000 and 32,000 some will pay less and some more (owing to the replacement of the series of large jumps by a steady rise), and incomes above Rs. 32,000 will all pay more tax. Of the 3,73,000 persons in 1936 liable to assessment, over 3,00,000 have incomes below Rs. 7,500, and only about 4,200 persons have incomes above Rs. 32,000.[1]

(2) *Accrual Basis.*—Under clause 4 assessees will be divided into three distinct classes: (*a*) persons not resident in British India, (*b*) persons resident, but not ordinarily resident, in British India; and (*c*) persons resident and ordinarily resident in British India.

(*a*) A non-resident is charged on all income accruing, arising or received in British India, and not on income arising abroad, whether or not he remits the income to British India, but the rate of assessment will be on the 'total world income' basis.

[1] *Report of the Central Board of Revenue*, 1936-7, p. 38.

(*b*) A person resident, but not ordinarily resident, pays tax on the same income as a non-resident, and also on (i) income arising from a business controlled in India (including Indian states), and (ii) any other income arising abroad, if it is brought into British India.

(*c*) A person resident and ordinarily resident in British India pays on the same classes of income as a person resident but not ordinarily resident, and also on income arising abroad though not brought into British India to the extent that it exceeds Rs 4,500

(3) More stringent provision has also been made for the filing of returns and production of accounts Formerly, a person was not liable to pay income-tax unless a notice was served on him by an income tax officer to make a return It was therefore possible for persons with large incomes to avoid tax altogether, if they escaped the notice of the income-tax officer Even after the officer did find out such a person, he could only assess him for the current year and the immediately preceding year, and no penalty was imposed for not paying tax in previous years Under the Act as amended (Section 22), the income-tax officer will publish general notices in the press calling upon every person within his jurisdiction to make a return of his total income, if that income exceeded Rs 2,000 in the previous year From now it will not be open to any one to claim that, as he has not received an individual notice, he is not liable to pay the tax Moreover, failure to make a return or to make it within the time allowed or to produce accounts, without reasonable cause, will involve a penalty of up to 1½ times the tax payable, or was about to be avoided. Even more important is the provision in the new Act giving the right to the income-tax officer to reopen assessments for the previous four years; if the officer is convinced that there has been concealment of income, he can reopen assessments for the previous eight years But this power is not to have retrospective effect i e it will not be used in respect of income assessable prior to 1938-9.

(4) Other important changes are (*a*) Leave salary drawn in England is not now exempt and salary due becomes income and not salary drawn (*b*) Hitherto, administrative work and appellate work were both done by the same Assistant Commissioner; from now the appellate work will be done by special Assistant Commissioners who will be under the direct control of the Central Board of Revenue (Section 5) (*c*) In the case of a registered firm, no assessment shall be made on the firm as such, but each partner shall be assessed separately, his share of income from the firm being incorporated in his assessment; but if the firm is not registered, the income-tax officer shall assess the firm as such or the partners individually, whichever method is more advantageous to the revenue [Section 23 (5)].

The new scale of rates was announced in the Finance Act of March 1939 [1] As incomes below Rs 8,000 will pay less tax from now, there will be a decrease under the tax on individuals, amounting to about Rs 93 lakhs in 1939-40 Under super-tax, on the other hand, an increase of Rs 1,17 lakhs is expected

The exemption limit (Rs 50,000) for companies' super-tax is abolished, and therefore an increase of Rs 52 lakhs is expected under that head The combined effect of all these changes is expected to be an increase of about Rs 1,31 lakhs for the year 1939-40 Of this, Rs 21 lakhs is under the Corporation Tax This may appear a modest sum considering the large expectations raised, but greater improvement is likely in future years, chiefly by the elimination of evasion.

Succession Duties

The question of levying succession duties was considered as early as 1859, when the Government of India were hard pressed to balance the budget after the Great Mutiny, and it was discussed several times in later years, but various objections raised have stood in the way The proceeds of succession duties go to the provinces under the new Act, but the administration and collection of these duties (except on agricultural land) is vested in the central Government, who are also given the power to levy surcharges on these duties In 1938, the Government of India circularized the provincial Governments asking for their views on the proposal to levy succession duties, and Sir Alan Lloyd went round to confer with these various governments; but most of them expressed disapproval or opposed the proposal on one ground or another The objections usually urged against the levy are (1) that the valuation of goods and chattels is difficult,

[1] *Rates of Income-Tax Based on the Slab System as Entered in the Finance Act, 1939*

A Individuals, Unregistered Firms, Hindu Undivided Families and Associations of persons (other than Companies)

	Rs	Rate
First .	1,500 of total income	*Nil*
Next	3,500 ,, ,,	9 pies in the rupee
,,	5,000 ,, ,,	1 anna 3 pies in the rupee
,, .	5,000 ,, ,,	2 annas in the rupee
Balance of income		2 annas 6 pies in the rupee

No tax is payable on incomes not exceeding Rs 2,000 Income-tax on incomes in excess of Rs 2,000 is restricted to half the excess of the income above Rs 2,000

B Rate for Companies—2 annas 6 pies in the rupee

Super-tax In the case of individuals, super-tax will be levied on incomes above Rs. 25,000, at rates ranging between 1 anna to 7 annas in the rupee An income of Rs 1 lakh will pay 22 pies in the rupee The rate of super-tax on companies is 1 anna in the rupee on the whole income (no exempted slab)

(2) that the habit of investment is in its infancy, (3) that there are no reliable figures of trading incomes on which the capital value of business concerns could be based, and (4) that the law of Mitakshara joint-family introduces complications which cannot be surmounted [1] Most of these objections have recently lost much of their force The difficulties connected with the joint-family system are no doubt real, but they are not insuperable, as the Taxation Enquiry Committee has shown [2]

Some of the provincial Governments lately expressed the opinion that succession duties cannot be levied pending the establishment of popular government at the Centre This argument is not very convincing, seeing that the autonomous provincial governments fully responsible to the people are themselves unwilling to commit themselves to a democratic tax like this, in spite of their heavy financial needs The succession duty is by no means a communistic measure and is fully justified by the regressive burden of many taxes that are now levied or are under contemplation The objections to succession duties can be largely removed if an untaxed minimum is prescribed and if the principle of progression is applied in respect of the value of inheritance as well as the remoteness of the heir

Probate duties have been levied for a long time in some parts of India and although imposed in the form of court fees, they partake to some extent of the nature of death duties. The existing duties are inequitable in their incidence, being confined to certain classes and communities, and there is no just apportionment of the burden between large and small estates. The Taxation Enquiry Committee recommended an extension of the existing law in certain directions, but no action has so far been taken in this matter The probate duties can be used as the nucleus of a suitable tax on inheritance Succession duties have great potentialities, from the social as well as the fiscal point of view, and their introduction cannot long be delayed

Land Revenue

On many grounds the provincial tax-system calls for very urgent reform today Of the two sources which constitute the sheet-anchor of the provincial treasury, land revenue is full of anomalies and contradictions, and the other, the excise on drink and drugs, is rapidly being extinguished We have therefore to carry out a radical reform of the land revenue system and to devise ways for replacing the liquor excise by finding more suitable sources

The anomalies of the land revenue system are many There is first the disparity between the permanently settled zamindari

[1] *Indian Taxation Enquiry Committee Report*, p 262
[2] Ibid, p 264.

land and the temporarily settled land under ryotwari or other tenure The assessment of the permanently settled zamindari estates was heavy at the time of settlement (1793 in Bengal and 1802 in Madras), but subsequently owing to the fall in the value of money the burden of the assessment has become very light. Further, with the extension of cultivation, the zamindars' rents increased considerably, so much so that the State's dues (peishkash), originally intended to absorb the bulk (ten-elevenths in Bengal and two-thirds in Madras) of the rent, has become a small fraction of it today Thus a large unearned increment has come into the hands of the zamindars and the many intermediaries that came to have a right in land, and hardly any of this increment comes into the State fisc The unearned income in Bengal is estimated at Rs 12 crores a year In Madras, while the peishkash from the zamindari areas continues to be Rs. 45 lakhs, the rents have increased to about Rs 2,50 lakhs, and thus the State's share is less than 20 per cent of the total rentals This has created a serious inequality in the revenue burden as between the zamindari and ryotwari areas Out of a total land revenue in Madras (including irrigation dues) amounting to Rs. 7 crores, Rs 6·55 crores (94 per cent) comes from ryotwari tracts, while the zamindari tracts which constitute a fourth of the total area contribute only Rs 45 lakhs (or 6 per cent of the total). Thus the burden of land revenue falls heavily on the ryotwari and lightly on the zamindari tracts

Nor are conditions satisfactory within the temporarily settled tracts. The principal defect of the land revenue system throughout India is that the assessment, whether based on net produce, net assets, economic rent or rental value, does not conform to ability Land revenue is a levy on the land, not on the income of the landholder, and therefore it has essentially to be proportional and cannot be progressive Apart from this inherent defect of land revenue from the point of view of fiscal theory, there are serious disparities in burden as between land and land. No doubt, the levy varies between grades of land, but this does not measure the income from it, as land of equal fertility can be put to different uses A cereal crop may bring in a net income of Rs 40, but a commercial crop may yield Rs 200, and both have to pay the same assessment In Madras, where the assessment is based on standard grain out-turns commuted into money values, paddy is taken as the standard for wet lands, cholam and ragi (dry grains) for dry lands [1] This system has continued even after commercial crops like cotton, sugarcane, groundnut and tobacco have become prominent in our agriculture, and thus the assessments have become far remote from ability In the result, the

[1] It may be noted here that before Akbar's reformed settlements of 1665, assessments were based on the value of crops also, but in the new system land revenue became a tax on land and not on the crop or the ryot's income.

assessment may be anything between 5 and 50 per cent. of the net produce today. It is generally heavy in cereal-growing tracts, and comparatively light where commercial crops are also raised. In Bombay also the disparities are pronounced; the assessment may be half the rent in one area, but may be only a fifth in another.

An important cause of the disparity is that districts were settled at various times In Madras, the assessment is made on the basis of the grain yield as commuted into money values according to the average price of the previous twenty non-famine years, and as the price-level has varied from period to period—owing to the operation of the trade cycle—the assessment also varies, and thus great inequalities have arisen in the revenue burden of different districts Therefore it would be unfair to stabilize the assessment on the level of any particular year Yet a Madras Committee presided over by an experienced civilian in 1937 recommended that assessments should in future be pitched on the level of 1913-14. It may be fair to put a stop to periodical enhancements without mortgaging the interests of the State in perpetuity, but the rates of 1913-14 cannot be taken as the basis for stabilization

The vagaries of the price-level have aggravated these evils So long as prices went on rising—as they did from 1860 to 1929. first gently and then (between 1914 and 1920) rapidly—the burden of assessments was not felt, especially in Madras, where it was decided in 1924 that enhancements were not to exceed 18¾ per cent But a severe slump started in 1930, and difficulties began to appear. Prices fell by nearly 50 per cent and therefore the burden of land revenue became extremely heavy This led to remissions in most provinces, but such remissions cannot rectify the inherent defects of the system Thus, what with the inequalities of assessment and the vagaries of the trade cycle, the prevailing ryotwari systems of assessment have become rather unsuited to the needs of the country.

The problem of the zamindari estates is even more complex. Lord Cornwallis believed that agrarian prosperity depended on the existence of landlords whose dues to the State were fixed in perpetuity, and therefore he converted a large number of mere rent-collectors into landlords of the English type What he expected did not happen, the new landlords took little interest in land and many intermediaries came into being for the sole purpose of sharing the net product of the land The permanent settlement of land revenue has turned out to be a great injustice to the State: it has alienated the unearned income from land, to which society has a right Further, in a world where economic conditions change incessantly and the value of money is unsteady, there is no justification for settling the revenue demand for all time. A liquidation of the whole system is called for; and so long as this is done by giving adequate compensation, this will be welcomed

by a large proportion of the zamindars. In Madras, the development of zamindari areas has been neglected, irrigation sources are not properly maintained, and it has become necessary to extend over the zamindari lands also the economic responsibilities undertaken by the Government in regard to ryotwari areas Lately a Committee of the Madras Legislature has come to the conclusion that the tenants are proprietors of the land and that the zamindars are only entitled to the money rents prevailing in 1801.[1] It is not clear whether the State is to appropriate what the zamindars have thus to relinquish The historical basis of the Committee's recommendations is liable to be questioned, but it may be conceded that a direct mode of liquidation has too many hurdles to surmount

The reform of the ryotwari settlement also raises complicated issues. In several western countries, the taxation of land takes four forms, namely (1) a flat rate on the annual or capital value of land, (2) income-tax on agricultural incomes (3) death duties, and (4) a local rate The land revenue system of India is based largely on pre-British practice, but it has been modified to suit the best economic ideas of the nineteenth century, and it has developed a technique which is nearly perfect It is the sheet-anchor, not only of the revenue but the administrative system of India; in fact, the whole administrative edifice has been built up as an organization primarily for administering the land and its revenue. To reform a system so deeply entrenched is extremely difficult. Some favour a radical reform, they would scrap the existing system and substitute in its place a rate on the capital value of land or a produce-tax The land taxes of Japan, Australia and New Zealand are based on the capital value of land, although theoretically such a tax has great merits there are various practical difficulties in introducing it in this country A tax on produce is even less suitable The Taxation Enquiry Committee thought that it might be possible to arrive at a result almost equally satisfactory with much less disturbance of existing conditions (*a*) by taking annual value as the basis of assessment for the future, (*b*) by standardizing the assessment at 25 per cent of the annual value, and (*c*) by providing for a moderate increase in the local rate The standardization of assessment at 25 per cent would lighten the burden of taxation on many persons who are now paying larger proportions of their net income from land as revenue, but would not give any special boon to the smallest holders who are worst hit As land revenue is a tax *in rem* levied at a flat rate, the Committee held that it would be impossible either to graduate it or to give exemption to particular lands because of the circumstances of the persons who cultivated

[1] *Report of the Madras Estate Land Act Amendment Committee* (1938)

them.[1] They offered, as some justification for this, the suggestion that the difficulties of the poorest cultivator arise 'not out of land revenue itself, but out of a combination of circumstances of which the chief feature is a large extension of uneconomic holdings' The real relief of the poorest cultivator', they add, 'is to be found in a better system of rural economy generally, rather than in a change of the land revenue system' They also proposed the introduction of an element of progression into the taxation of land by the levy of succession duties and an income-tax on agricultural incomes.

A strong theoretical case can be made out for the introduction of an income-tax on agricultural incomes As has been shown above, agricultural incomes were assessed to income-tax when that tax was first introduced (1860), but when it was replaced by a licence tax, a corresponding burden in the shape of a cess was placed on land It was the existence of this cess that led to the exemption of agricultural incomes from the Income-tax Act of 1886 But the cess was subsequently abolished, and the case for exemption has therefore become weak Equity demands that incomes from land should bear burdens similar to those borne by corresponding incomes from other sources It is also fair to make the levy progressive in order that the sacrifice may be equalized as between larger and smaller incomes But there are various administrative difficulties in levying a tax on agricultural incomes, and the cost would be rather high Ryots hold land in several villages, but the Government accounts are kept separately for each village The estimation of cultivation expenses to be deducted would also be extremely difficult, as the ryots seldom keep accounts Further, if the exemption limit were kept at Rs. 2,000 (as in the general income tax), very few landholders would be liable to pay the tax and even if the limit were lowered, say to Rs 500 the number affected might not be large[2] The justification for an agricultural income-tax would become weak if the zamindari estates were liquidated and provision were made for imposing higher assessments on land bearing commercial crops

The need for adjusting assessments to the price-level has been keenly felt at the time of the recent depression An assessment which is light in normal times becomes heavy during a slump; when prices are high, the revenue burden is light and consequently the ryot falls into extravagant ways and contracts debts freely, but when prices fall heavily, nearly the whole net income from the land is absorbed by the land revenue, and indebtedness leads to foreclosure and loss of land This can be avoided if the land revenue is made to vary with the price-level An experiment in this direction is being tried in certain areas in the Punjab There

[1] *Report of the Indian Taxation Enquiry Committee* pp 83-4
[2] op cit, p 212.

is a standard assessment based on the commutation into money value of the grain share of the State For commutation purposes, the prices of the twenty previous years are used If in any year prices rise above the level of the commutation period, no excess assessment will be demanded, but if prices fall below that level, a remission will be granted, and this will be calculated on the basis of index numbers of prices For this calculation, a formula has been devised This system is not altogether new A hundred years ago, there was a severe slump in Southern India, and the Government of Madras introduced in two districts of the presidency a similar system of revenue assessment (called *Olungu*) based on a sliding scale varying with prices. This was a success for a time and there was a proposal to extend it all over the presidency, but it was later dropped when prices rose again It is extremely difficult to construct index numbers of a reliable kind, and to make land revenue depend on such index numbers is to court trouble Further although prices fluctuate from season to season and from year to year, price slumps of the kind that occurred in 1930-2 are rare and it may be possible to provide against minor fluctuations by carrying out milder reforms.

On the whole the least troublesome course seems to be to standardize assessments at 25 per cent of the annual value, as recommended by the Taxation Enquiry Committee, and on top of it to levy an extra assessment on lands bearing commercial crops. The levy of succession duties on agricultural land and an income-tax on agricultural incomes raises complex issues, but may be necessary in order to meet the State's need for money, especially if the zamindari areas cannot be made to bear a burden equivalent to that borne by the ryotwari areas. The land revenue system should be placed on a statutory basis in the provinces where it is now administered under executive orders The periodical resettlements may be stopped, but the legislature must have power to modify assessments from time to time according to the needs of government and the trend of the price-level

§6 *New Taxes to Replace Liquor Excise*

At a time when the provincial Governments badly need increased resources, it is unfortunate that many of them have to grapple with the serious loss of revenue arising from their decision to introduce total prohibition, although by stages No doubt prohibition is not merely a social or moral experiment: it is also an attempt at readjusting the burdens of taxation. The revenue under liquor excise is paid mostly by labourers, and its incidence is extremely regressive, because drinking is most prevalent among classes of labourers whose work is irregular and wages rather low and uncertain. An intensive enquiry carried

out in Salem District (Madras) has disclosed the fact that the bulk of liquor excise was paid by 200,000 out of the 2,500,000 people (i.e 8 per cent.) of that district. This is perhaps true more or less of other parts of Madras, and may be largely true of other provinces also. Nor is this a correct measure of the real burden on the drinking classes, for the actual drink bill must be at least double the amount of the revenue from liquor excise. Thus the position comes to this, that a single commodity—liquor —today costs a small proportion of the people about Rs. 30 crores throughout India; it also follows that, if this commodity is kept away from the people, their capacity to purchase other less injurious goods will increase to that extent. We know that of the purchasing power liberated by prohibition in Salem, nearly half was used for food, 10 per cent. for clothing and similar proportions for repayment of debt, amusements, ornaments, etc. This fact should help us in finding suitable alternative sources of revenue. We must transfer to other consumption commodities the burden so far borne by alcoholic drinks and drugs.

A suitable device for this is the sales tax Sales taxes are generally uneven and regressive in their incidence, and they have also certain unfavourable reactions on trade and business This source therefore remained undeveloped till the necessities of war finance forced it on the Western nations, and although born in emergency, it has stayed to become a normal feature of the fiscal systems of most countries, with the single prominent exception of Great Britain In several European countries today, the sales tax is nearly as important a source of revenue as income-tax or customs duties It is also a growing source of 'State' and local revenue in the U.S A It takes many forms A broad distinction can be made between general and selective sales taxes The latter are taxes on the sale of special commodities, mostly luxuries or conventional necessaries A general Sales Tax may be levied on all transactions, wholesale and retail, or it may be on wholesale transactions only Usually the term turn-over tax is confined to a tax on all transactions, wholesale and retail Some sales taxes cover both goods and services, while others cover only goods The German sales tax, for instance, comprises all transactions and includes both goods and services The French sales tax is also general, but excludes many services like those of medical men; it includes a 10 per cent luxury tax, a general tax on retail transactions and a higher tax on receipted payments Originally, the tax was collected through stamps on retail sales only in France and Germany, but there was much evasion and this form of tax was later superseded by turn-over taxes on the total receipts of business and not merely on retail sales Returns are furnished periodically and the tax-collector makes a systematic and thorough examination of ledgers, etc. The rates vary from ½ per cent. in Poland to 2 per cent in France and Germany. Canada and

Australia levy the tax on the sales of producers and importers only, and the rates are 6 per cent and 5 per cent respectively In many of the American States the tax is on retail sales, and the rate ranges from a half cent to 2 cents per dollar. Most of the countries levy special taxes on luxuries at much higher rates

The incidence of sales taxes is considered regressive, because they are generally shifted to the consumer, and consumption taxes fall heavily on the poor But some sales taxes can be devised so as not to involve too heavy a burden on the poor. A sales tax on luxuries will be shifted, especially if demand is inelastic, and therefore the burden will be on the well-to-do Similarly, a sales tax on conventional necessaries may not all be shifted, if their demand is highly elastic, and the trader will either bear it or shift it back to the producer The incidence of a general sales (turn-over) tax is much less certain, it may largely remain where it is laid, provided it is levied at a very low rate The tax rates are fairly high in many countries (2 per cent is usual), and that is why its incidence has become rather regressive In periods of rising prices, it is easy for retailers to shift the burden to the consumers, but this is not so easy when prices are falling. In the provinces of India which are trying to replace liquor excise, a general sales tax may be levied at a very low rate, and special sales taxes on certain luxuries and conventional necessaries at a higher rate Articles on which special taxes may be levied are motor cars and accessories, cement, perfumes, silk and woollen cloth, patent medicines, aerated waters etc In addition to these, a registration or licence fee on trades and businesses may also be desirable, as it will not only bring in some revenue, but will also supply essential data on business conditions A suitable system of sales taxation can be developed in this country, provided local conditions are taken into account

The chief advantage of the sales taxes is that they are rather productive and that their burden will be diffused widely, as the traders who pay them in the first instance will be able to pass them on to others If, however, sales taxes are levied at all the stages of trade, it is certain that prices will be affected, especially in a boom period, the rise in prices may be more than the tax, thus transferring from the consumers more than what the traders pay to the Government Consumption taxes are not unknown to this country, a large number of them were levied early in the nineteenth century and they greatly impeded trade and consumption (*supra*, p 35) If a rise in the price of necessaries takes place without a corresponding increase in incomes, the standard of living of the poorer classes, which is already too low, will deteriorate, and this will be contrary to the most cherished object of economic development in India As against this, it is fair to add that, however regressive a sales tax may be, it cannot be more regressive than the liquor excise which it is replacing, and

therefore it is the lesser of the two evils No doubt, the labourer will have to bear a heavier burden; but this burden will be borne more by urban than rural labourers and so may not be too unfair. The rural worker, whether a tenant or a labourer receiving wages in kind, consumes mostly articles produced by himself, and his purchases are largely confined to salt and kerosene oil; on the other hand, the urban labourers have to purchase nearly everything they consume This can be seen from the family budget enquiries carried out recently. If the urban classes will thus have heavier burdens, it is but fair to admit that their incomes are also larger and steadier, and that the tax burdens borne by them in the past have not been too heavy

Selective sales taxes have been imposed by several provincial Governments in India, but only Madras has so far levied a general sales tax Under the Madras General Sales Tax Act (1939), all dealers whose turn-over in any year exceeds Rs 10,000 will be liable to tax The standard rate is one-half of one per cent , but those whose turn-over does not exceed Rs 20,000 a year will pay a flat rate of Rs 5 per month Sales of bullion and specie, cotton and cotton yarn, and hand-woven cloth sold by persons dealing exclusively in such cloth will be exempt from taxation The sale of hides and skins, whether tanned or untanned, will be taxed at a single point only In order that the tax may not be too great a burden on exporters of finished goods, a rebate of one-half of the tax will be allowed on the sale of such articles for delivery outside the province

Tobacco

Tobacco is a commodity which can be made to bear a large tax burden, yet it bears hardly any in most parts of India. 'It is a typical instance of a conventional luxury whose use goes down to the poorest classes, and it is an article the consumption of which can be varied greatly both in quality and quantity according to the means of the consumer'[1] Tobacco has long been regarded as a suitable object of taxation but, although the matter was considered several times, administrative difficulties always stood in the way [2] In France, tobacco is a government monopoly and the State raises a large revenue by it In the French possessions in India, the privilege of selling tobacco is sold by auction under conditions which give each shop a practical monopoly of a local area, but cultivation and manufacture are not restricted. Several of the Indian states raise a large revenue from tobacco. In Travancore, cultivation is prohibited and a duty is levied on the tobacco entering the State. In Cochin, there is a licence

[1] *Report of the Indian Taxation Enquiry Committee*, p 155

[2] In parts of Madras (Coimbatore, Malabar and South Kanara) country tobacco was a State monopoly and in former times (1811 to 1858) cultivation was not allowed except under licence.

fee on tobacco, both wholesale and retail. In Patiala, free cultivation is permitted, but the cultivator must sell his crop to licensed vendors, who have the sole monopoly of the right to sell in prescribed areas. The revenue return amounts in Travancore to 8 annas per head, in Cochin 4 annas, in Patiala 2¼ annas and in French India 6 annas The Indian Taxation Enquiry Committee recommended a system of licensing, leading ultimately to selling the monopoly of retail vend in specified areas The Government of Bombay levy a sales tax on tobacco sold in urban areas and on cigarettes Madras at first contemplated taxing tobacco on the monopoly vend basis, but later decided to levy a turn-over tax on the sale of manufactured tobacco, both wholesale and retail. Retail dealers in manufactured tobacco have to pay a graduated tax on their sales, and wholesale dealers in leaf tobacco will have to take out a licence by paying an annual fee The use of tobacco will not be restricted in any way, but a limit will be imposed on the quantity that may be possessed for private use in order to prevent evasion of the provisions of the Act.

Under the Government of India Act, 1935, the excise on tobacco is a central subject, and the provinces can tax the commodity only under 'taxes on the sale of goods' When the new constitution was drawn up, it was feared that the central Government's right to levy excises might be used to undermine provincial sources like land revenue, but what really happened was an invasion by the provinces of the central sphere of taxation The sales taxes already levied or proposed, the tobacco tax and the employment tax trench upon important central sources like excises and income-tax, and to this extent the domain of central taxation has been restricted The Federal Court has upheld the right of the provinces to levy sales taxes, but has also advised forbearance on their part, but such forbearance may not be expected immediately, as they are struggling hard to replace the liquor excise revenue Sales taxes will not only limit central resources; they may also prevent the growth of the 'commerce power' in the central Government, which is essential for the unimpeded progress of internal trade In the United States, the weak federal authority in economic matters under the original constitution was amplified and enlarged by the determined attitude taken by the Supreme Court Those who desire that India should be a united nation must see that the Centre gets ample power and resources for discharging its important co-ordinating functions

Non-Tax Revenue

There has lately been a decline in the revenue from non-tax sources in India Of the two Government monopolies of this country, opium which once brought in as much as Rs. 10 crores to the State fisc has nearly disappeared; salt remains, but with little scope for expansion. There is a valuable domain in the

State forests, but we have so far attended to conservation rather than exploitation. The railways brought in a steady revenue after the War, but owing to various causes this item has experienced a setback since 1930. Other public utilities, especially hydro-electric schemes, have been nurtured lately, especially in Madras, the Punjab and the United Provinces, but they have not yet begun to yield any considerable income.

Most of the public utility undertakings were begun with a view to social benefit; the financial motive was not prominent at first. But there has lately been a change all over the world, due chiefly to the necessities of the State. Public utilities have everywhere become indirect tax collectors.[1] Thus irrigation works were begun in India as an insurance against famine, but they have since become a steady source of revenue, and some of the older irrigation works contribute as much as 20 per cent. on the capital invested. The motive behind railway construction was originally the prevention of famine, today, however, they have become a potent agency for economic development and a revenue-giving asset. The exploitation of power supplies is in its infancy. Certain provinces have installed costly plants for generating electricity, and if distribution is carefully attended to, they will become a sure agency for economic development and also a steady source of public revenue. Urban transport (light railways, tramways, omnibus services, etc.) has so far been left to municipal or private enterprise, but it may be desirable for the State to intervene, in the interests of both the public good and the revenue. Certain Indian states have established monopolies in bus traffic and perhaps their experience deserves to be carefully watched by others. There are also other advantages in developing public utilities. They add to the national income and give steady employment to large numbers.

The State must now look for the expansion of not only public utilities properly so called, but also other public undertakings which may contribute to the revenue as well as to economic development. There is great scope for State undertakings in India without restricting private enterprise unduly. One such direction is insurance. In Italy and Japan, insurance is a State monopoly; the latter runs it in conjunction with the Post Office. Insurance is a subject of such vital interest to the community that it cannot be left in private hands. Already the Post Office is managing an insurance business, although for State employees only, and an extension of its scope is desirable. It may not be desirable to make insurance a State monopoly; the State may obtain a steady revenue by the taxation and control of insurance companies. Another field for expansion is fisheries. Fish is a valuable article of diet and a larger supply of it will make the Indian diet more

[1] M. G. Glaeser, *Public Utility Economics* (1931), p. 585.

balanced than it is today. But this will not be done unless the Government take a direct interest in it. Nor will this be a waste of public money. Japan obtains a large revenue from her fisheries, and in recent years, thanks to State enterprise, a considerable part of Japan's national income comes from fish India has a large coast-line and extensive potentialities for rearing fish, and it is high time the State adopted an enterprising policy in this matter.

The opposition in the past to the extension of State enterprises was chiefly due to the fear of political influence and the well-known imperfections of public employees But it has been shown lately in western countries that business methods can be adopted in Government offices, partly by giving special training to public employees and partly by recruiting experienced business men for special posts under the Government The formation of a pool of officers for holding posts in the Finance and Commerce Secretariats of the Government of India is perhaps a step in this direction

However efficient public employees may become, there are dangers in a democratic government directly managing business; no business can be safe if it comes under the influence of party politics The system of leaving public enterprises to be managed by semi-public corporations is therefore coming into vogue Such 'public service boards' in Great Britain are the Port of London Authority, the Forestry Commission, the British Broadcasting Corporation, the Central Electricity Board, the London Passenger Transport Board and the various Agricultural Marketing Boards They are all free from the influence of party politics and are managed by experienced business men, appointed for a period of years[1] India has already a few similar organizations, e g the Reserve Bank and the Port Trusts; provision has also been made in the new Constitution for a Statutory Railway Authority A statutory tariff commission may perhaps be a desirable addition to this group. As public enterprises expand and governments come more and more under the influence of party politics, it would be best to leave to impartial expert management such concerns as are of vital concern to the community

§7 A *New Financial Outlook*

Indian governments in the past followed a conservative financial policy; to raise as few taxes as possible and keep expenditure down to the minimum—this was the dominant idea in those days Perhaps this was justified when the people of the country had no great share in the government But now that responsible self-government is being progressively realized, there must be a thorough change in this policy. In future, financial policy must

[1] W A. Robson, *Public Enterprise* (1937)

subserve the economic development of the country. It is not sufficient to maintain law and order; the Government must aim at maximising the economic welfare of the community by increasing production in the country and raising the income and the standard of life of the people. With such an aim in view, the Finance Ministry of each Government must co-operate with the Development and other ministries; with such a change of attitude, not only public expenditure but taxation and loan policies should assume new aspects.

It is often argued that the present tax-burden is too heavy for a poor country like India, and that the limits of India's taxable capacity were reached long ago This view is based upon a misconception as to the nature and purpose of public finance It is true that India is a poor country and that the burden of the existing taxes is fairly high for certain classes, but it is also true that, if poverty is to be diminished, it is essential to raise more revenue, paradoxical as this may appear The tax-burden of India may be heavy if the revenue is to be spent chiefly on the security services, but, provided the increased revenue were used for a well-planned scheme of economic improvement, more revenue could be raised and yet the relative tax-burden might at the same time be lightened In the present circumstances of India a larger expenditure on economic and social services would increase the national income Although the additional taxation needed for the purpose might be felt as a hardship for a time, it would soon increase the people's 'taxable capacity' and thus eventually lighten their tax-burden [1] Hitherto taxation has often been regarded as necessarily involving a loss to the community, but, if the financial system is adjusted on the principle of maximum social advantage, a tax will 'no longer be regarded as a burden to be exacted from the unwilling victim but as a contribution cheerfully rendered by those who are alive to the sense of collective responsibility implicit in the very conception of democracy' (Seligman) After all, taxation means a transfer of purchasing power from the individual to the public authority, and if that authority uses the funds for undertaking really beneficial economic or social services, the community will get good value for the amount paid Of course, while many taxes are levied 'from each according to his ability', several of the benefits accruing may go 'to each according to his needs' In some cases the poor may benefit more than the rich, but that is as it should be and is necessary in order to produce the maximum social advantage Such an attitude has lately developed in the West, and it is gratifying to think that it conforms precisely to the financial ideal which (according to Kalidasa) guided King Dileepa and all good kings in ancient India [2]

[1] The term 'taxable capacity' is itself a misnomer, as shown by Dalton (*Public Finance*, p 160), and I use it here only in a general sense.

[2] See footnote on page 6

We must therefore revise our conceptions of taxation and taxable capacity This country has reached a stage at which greater expenditure by the State is essential for an advance in economic and social welfare It is essential in order to make life worth living, not only for the poor but also for the rich A bold policy of expenditure on social and economic services is needed in the interests of the whole country Sir Walter Layton put this cogently in his report to the Simon Commission 'There can be little doubt', he said, 'that, in conditions such as those which now obtain in India it should be possible to stimulate production and to increase the welfare of the people by public expenditure designed to give greater economic security (by irrigation works, improved and more varied methods of cultivation, etc.), better physical well-being (sanitation, water-supply, improved public health, etc), and education Indeed taxation may be the only practical means of creating a better and more secure livelihood' [1]

Our borrowing policy must also become more enterprising Till lately, the loan policy of the Governments in British India was unduly strict Hitherto loan funds were not ordinarily used for capital works unless they could be classed as 'remunerative', i.e likely to produce at least a certain annual percentage yield on the capital invested after ten years from completion From 1 April 1921 to 31 March 1937 this 'productivity test rate' was 6 per cent Under Provincial Autonomy provincial Governments have full power to fix this rate for application to their own capital works and the Madras Government has fixed it at 4 per cent for the present Further, under the Act of 1935 the provincial Governments have practically full powers in regard to borrowing, though the formal consent of the central Government is required for borrowing out of India and for all borrowing by a provincial Government which has not fully repaid its debt to the central Government The scope for borrowing within the country has also widened lately The loans raised in 1937 and 1938 by certain provincial Governments were well received and some were over-subscribed These facts augur well for an active policy of capital expenditure in future

Governments need not only long-term loans, but also accommodation for short periods in order that their day-to-day needs may be met Especially in India, such needs are great at times, as revenues come in late Hitherto, the central Government, as banker, supplied such needs of the provinces, but from 1 April 1937 they have to make their own arrangements The provincial governments have proved themselves to be equal to the situation. Several of them have issued treasury bills and thus raised

[1] *Simon Commission Report*, vol II, p 208.

short-term funds at low rates of interest In Madras, the first issues were for six months; later three-months bills were issued. In this, as in other matters, most provincial governments have achieved good results, and their credit in the money market stands high

§8 *Need for Planning and Co-ordination*

The task before the country is vast and difficult We need a new economic policy and this must be accompanied by a new financial outlook Popularly elected bodies may find it extremely difficult to draw up such plans Even in Western countries where the level of popular education is high, legislatures deem themselves unfit for such difficult work The provincial Secretariats are doing excellent work in their way, but their hands are already full with the heavy duties of day-to-day administration Further, for the formulation of new economic policies the assistance of persons with the necessary special training and equipment is essential.

The appointment of committees of enquiry in regard to particular questions will help greatly in obtaining new ideas, but in view of the wide reconstruction that is called for, the Governments in India need economic general staffs, which should continuously study and interpret a wide range of economic phenomena and advise the Governments on questions of policy The Government of India have given the lead by appointing an Economic Adviser, and it seems likely that the Provinces will have to follow this lead in one form or other

In the present circumstances of the world, the most careful and energetic policy is needed in regard to central concerns like currency, tariffs, foreign and inter-provincial trade, and the development of key industries Not only the unity of India, but also the healthy development of its resources and their just distribution as between areas and economic groups, depend largely on the activities of the central (or Federal) Government Hence the great importance of that Government's having ample resources and adequate powers for carrying out a vigorous economic policy. It is for the provincial Governments to co-operate with the Centre in the carrying out of its policy, and any attempt to undermine the central sources of revenue would be detrimental to the highest interests of the country

On most of the questions under the purview of the provincial Government, each province must develop on separate lines best suited to its environment Considering the great diversity in the conditions of India, one may doubt the wisdom of leaving the formulation of policy in such important matters to an all-India body of experts Such a body may draw up certain general principles, but further questions will then arise as to the best methods of applying those principles to local conditions in the various provinces and these can only be solved locally.

There are indeed matters, including even some of direct provincial concern, in which uniformity between provinces is essential. Social legislation is one of them The coming of the Congress Party into power roused great expectations among the working classes throughout India, and this was partly responsible for the labour troubles that soon arose in most parts of the country In many provinces legislation for regulating wages and hours of work is contemplated and plans for unemployment insurance are also being drawn up Such legislation in one province in advance of others may seriously handicap the industries of that province In every way, it would therefore be desirable to make such legislation uniform throughout the country, or at least in provinces which have analogous problems In Canada social legislation is exclusively a provincial subject, and this results in frequent clashes between the interests of different governments In India social legislation is a concurrent subject, and as the central Government may not take up the subject for various reasons, it is essential that the legislation in the various provinces should be co-ordinated

On the other hand, in many other matters, much may be gained by each province chalking out lines of reform for itself In administration there is no better method than trial and error If a measure succeeds in one province, others may adopt it with modifications, if it fails, the experience will still be useful for the guidance of other provinces In any case every province should have easy access to the results of the experience of others, and for this purpose there is a great need for a clearing house of information in the central Government, which would carefully collect detailed accounts of all the measures undertaken in the various provinces and draw up periodical reports on the working of those measures

§9 *Conclusion*

India has lately entered on a new political epoch Within two years of its introduction Provincial Autonomy has proved a success, at any rate from the financial standpoint By making the welfare of the masses their prime concern, the new provincial Governments have aroused a new hope among the common people, and, sustained by such a living hope, India may in future rise to much higher levels of economic and social attainment. The country is throbbing with life; there is a great urge everywhere for improvement At this juncture, development on fairly uniform lines is very desirable from many points of view If some provinces or states lag behind, the pace of progress of the rest of India will be hindered. To ensure a reasonable degree of uniformity, there must be a co-ordinating authority, and in a country of such diversities as India, only a Federation can fulfil that

function Federation will not only ensure peace and unity within this sub-continent, but will also enable India to occupy her proper place in the British Commonwealth of Nations. India which contains a fifth of the world's population, is bound to attain a high place among the nations after federation, and this may strengthen the forces that are struggling for peace and ordered progress throughout the world Mankind is in the throes of a great struggle, and, if India is to play an honourable rôle in this struggle, she must pull herself together and rise above the clash of race and creed and colour She must become a united Federal Commonwealth, of which the numerous states as well as the eleven provinces will be integral parts Is it too much to expect that this hope will soon be fulfilled?

APPENDIXES

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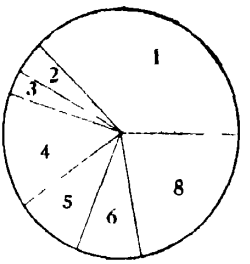
APPENDIX A

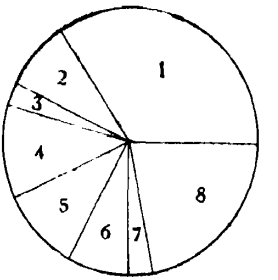
CHART I

REVENUE

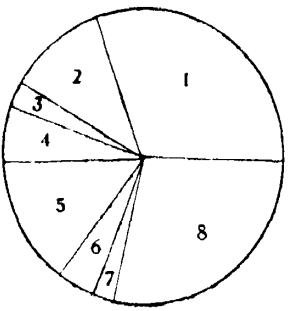
(Central and Provincial)
in 5 quinquennial periods



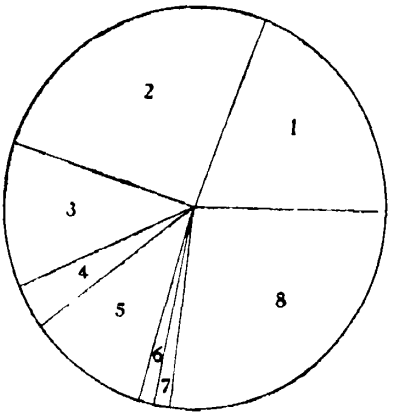
1891–95



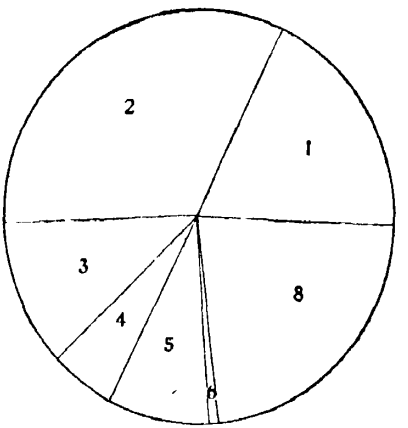
1901–05



1911–15



1921–25



1931–35

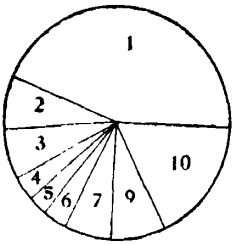
KEY

1	LAND REVENUE
2	CUSTOMS
3	INCOME-TAX
4	SALT
5	EXCISE
6	OPIUM
7	RAILWAYS
8	OTHER HEADS OF REVENUE

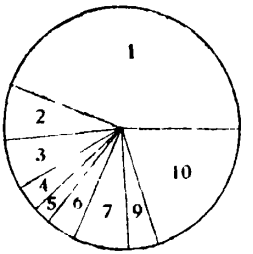
CHART II

EXPENDITURE

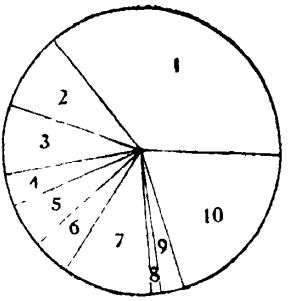
(Central and Provincial)
in 5 quinquennial periods



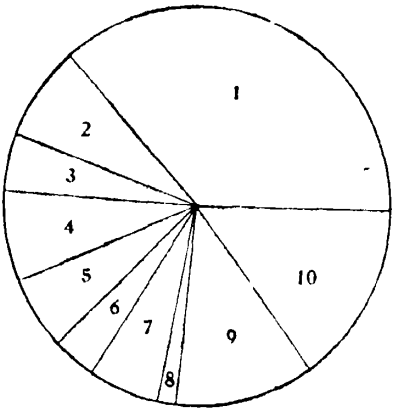
1891–95



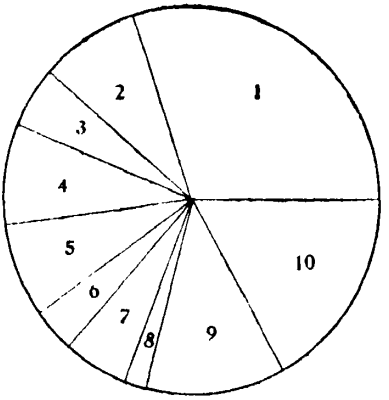
1901–05



1911–15



1921–25



1931–35

KEY

1	DEFENCE
2	POLICE
3	LAW & JUSTICE
4	GENERAL ADMINISTRATION
5	EDUCATION
6	PUBLIC HEALTH & MEDICAL AID
7	CIVIL WORKS
8	AGRICULTURE
9	DEBT CHARGES
10	OTHER HEADS OF EXPENDITURE

APPENDIX B

FINANCE MEMBERS OF THE GOVERNMENT OF INDIA

Year	*Name*
1860	The Rt Hon James Wilson
1861–1862	The Rt Hon Samuel Laing
1863–1865	Sir Charles Trevelyan, K.C.B.
1866–1868	The Rt Hon W N Massey
1869–1874	Sir Richard Temple, K C S I
1875–1876	Sir William Muir, K C S I
1877–1880	Sir John Strachey, K.C.S I , C I E
1881–1883	Lord Cromer, C S I , C.I E (Major Evelyn Baring)
1884–1887	Sir Auckland Colvin, K.C.M G , C I E
1888	Sir James Westland, K C S.I.
1889–1893	Sir David Barbour, K C S I
1894–1899	Sir James Westland K.C.S.I

Year	*Name*
1900	Sir Clinton Dawkins, K C B
1901 1902 1903 1904	Sir Edward F G Law, K.C.M.G., G C.S.I.
1905 1906 1907 1908	Sir Edward Baker, K.C S I.
1909 1910 1911 1912 1913	Sir Guy F Wilson, G.C.I E , K C.B., K C.M.G
1914 1915 1916 1917 1918	Sir William Meyer, G.C.I E K C S I
1919	Sir James (now Lord) Meston, K C S.I
1920 1921 1922	Sir Malcolm (now Lord) Hailey, K C S I., C.I.E
1923 1924 1925 1926 1927 1928	Sir Basil P. Blackett, K.C.B., K C.S I
1929 1930 1931 1932 1933 1934	Sir George Schuster, K C M G., C B E , M C., K.C S.I
1935 1936 1937 1938	Sir P James Grigg, K.C.B , K C S I
1939 ...	Sir A J Raisman, K.C I.E., I C.S

APPENDIX C

GOVERNMENT OF INDIA ACT, 1935

PART VII

FAMINE, PROPERTY, CONTRACTS AND SUITS

CHAPTER I

FINANCE

Distribution of Revenues between the Federation and the Federal Units

136. Subject to the following provisions of this chapter with respect to the assignment of the whole or part of the net proceeds of certain taxes and duties to Provinces and Federated States, and subject to the provisions of this Act with respect to the Federal Railway Authority, the expression 'revenues of the Federation' includes all revenues and public moneys raised or received by the Federation, and the expression 'revenues of the Province' includes all revenues and public moneys raised or received by a Province.

137. Duties in respect of succession to property other than agricultural land, such stamp duties as are mentioned in the Federal Legislative List, terminal taxes on goods or passengers carried by railway, or air and taxes on railway fares and freights, shall be levied and collected by the Federation, but the net proceeds in any financial year of any such duty or tax, except in so far as those proceeds represent proceeds attributable to Chief Commissioners' Provinces, shall not form part of the revenues of the Federation but shall be assigned to the Provinces and to the Federated States, if any, within which that duty or tax is leviable in that year, and shall be distributed among the Provinces and those States in accordance with such principles of distribution as may be formulated by Act of the Federal Legislature

Provided that the Federal Legislature may at any time increase any of the said duties or taxes by a surcharge for Federal purposes and the whole proceeds of any such surcharge shall form part of the revenues of the Federation.

138 (1) Taxes on income other than agricultural income shall be levied and collected by the Federation, but a prescribed percentage of the net proceeds in any financial year of any such tax, except in so far as those proceeds represent proceeds attributable to Chief Commissioners' Provinces or to taxes payable in respect of Federal emoluments, shall not form part of the revenues of the Federation, but shall be assigned to the Provinces and to the Federated States, if any, within which that tax is leviable in that year, and shall be

distributed among the Provinces and those States in such manner as may be prescribed.

Provided that—

(a) the percentage originally prescribed under this sub-section shall not be increased by any subsequent Order in Council,

(b) the Federal Legislature may at any time increase the said taxes by a surcharge for Federal purposes and the whole proceeds of any such surcharge shall form part of the revenues of the Federation

(2) Notwithstanding anything in the preceding sub-section, the Federation may retain out of the moneys assigned by that sub-section to Provinces and States—

(a) in each year of a prescribed period such sum as may be prescribed; and

(b) in each year of a further prescribed period a sum less than that retained in the preceding year by an amount being the same amount in each year so calculated that the sum to be retained in the last year of the period will be equal to the amount of each such annual reduction

Provided that—

(i) neither of the periods originally prescribed shall be reduced by any subsequent Order in Council

(ii) the Governor-General in his discretion may in any year of the second prescribed period direct that the sum to be retained by the Federation in that year shall be the sum retained in the preceding year, and that the second prescribed period shall be correspondingly extended, but he shall not give any such direction except after consultation with such representatives of Federal, Provincial and State interests as he may think desirable, nor shall he give any such direction unless he is satisfied that the maintenance of the financial stability of the Federal Government requires him so to do.

(3) Where an Act of the Federal Legislature imposes a surcharge for Federal purposes under this section, the Act shall provide for the payment by each Federated State in which taxes on income are not leviable by the Federation of a contribution to the revenues of the Federation assessed on such basis as may be prescribed with a view to securing that the contribution shall be the equivalent, as near as may be, of the net proceeds which it is estimated would result from the surcharge if it were leviable in that State, and the State shall become liable to pay that contribution accordingly.

(4) In this section—

'taxes on income' does not include a corporation tax,

'prescribed' means prescribed by His Majesty in Council, and

'Federal emoluments' includes all emoluments and pensions payable out of the revenues of the Federation or of the Federal Railway Authority in respect of which income-tax is chargeable

139. (1) Corporation tax shall not be levied by the Federation

in any Federated State until ten years have elapsed from the establishment of the Federation.

(2) Any Federal law providing for the levying of corporation tax shall contain provisions enabling the Ruler of any Federated State in which the tax would otherwise be leviable to elect that the tax shall not be levied in the State, but that in lieu thereof there shall be paid by the State to the revenues of the Federation a contribution as near as may be equivalent to the net proceeds which it is estimated would result from the tax if it were levied in the State

(3) Where the Ruler of a State so elects as aforesaid, the officers of the Federation shall not call for any information or returns from any corporation in the State, but it shall be the duty of the Ruler thereof to cause to be supplied to the Auditor-General of India such information as the Auditor-General may reasonably require to enable the amount of any such contribution to be determined.

If the Ruler of a State is dissatisfied with the determination as to the amount of the contribution payable by his State in any financial year, he may appeal to the Federal Court, and if he establishes to the satisfaction of that Court that the amount determined is excessive, the Court shall reduce the amount accordingly and no appeal shall lie from the decision of the Court on the appeal

140 (1) Duties on salt, Federal duties of excise and export duties shall be levied and collected by the Federation, but if an Act of the Federal Legislature so provides, there shall be paid out of the revenues of the Federation to the Provinces and to the Federated States, if any, to which the Act imposing the duty extends, sums equivalent to the whole or any part of the net proceeds of that duty, and those sums shall be distributed among the Provinces and those States in accordance with such principles of distribution as may be formulated by the Act.

(2) Notwithstanding anything in the preceding sub-section, one half, or such greater proportion as His Majesty in Council may determine, of the net proceeds in each year of any export duty on jute or jute products shall not form part of the revenues of the Federation, but shall be assigned to the Provinces or Federated States in which jute is grown in proportion to the respective amounts of jute grown therein

141. (1) No Bill or amendment which imposes or varies any tax or duty in which Provinces are interested, or which varies the meaning of the expression 'agricultural income' as defined for the purposes of the enactments relating to Indian income-tax, or which affects the principles on which under any of the foregoing provisions of this chapter moneys are or may be distributable to Provinces or States, or which imposes any such Federal surcharge as is mentioned in the foregoing provisions of this chapter, shall be introduced or moved in either Chamber of the Federal Legislature except with the previous sanction of the Governor-General in his discretion.

(2) The Governor-General shall not give his sanction to the introduction of any Bill or the moving of any amendment imposing in any year any such Federal surcharge as aforesaid unless he is satisfied that all practicable economies and all practicable measures

for otherwise increasing the proceeds of Federal taxation or the portion thereof retainable by the Federation would not result in the balancing of Federal receipts and expenditure on revenue account in that year.

(3) In this section the expression 'tax or duty in which Provinces are interested' means—

(*a*) a tax or duty the whole or part of the net proceeds whereof are assigned to any Province, or

(*b*) a tax or duty by reference to the net proceeds whereof sums are for the time being payable out of the revenues of the Federation to any Provinces

142. Such sums as may be prescribed by His Majesty in Council shall be charged on the revenues of the Federation in each year as grants in aid of the revenues of such Provinces as His Majesty may determine to be in need of assistance, and different sums may be prescribed for different Provinces

Provided that, except in the case of the North-West Frontier Province, no grant fixed under this section shall be increased by a subsequent Order, unless an address has been presented to the Governor-General by both Chambers of the Federal Legislature for submission to His Majesty praying that the increase may be made.

143 (1) Nothing in the foregoing provisions of this chapter affects any duties or taxes levied in any Federated State otherwise than by virtue of an Act of the Federal Legislature applying in the State.

(2) Any taxes, duties, cesses or fees which, immediately before the commencement of Part III of this Act, were being lawfully levied by any provincial Government, municipality or other local authority or body for the purposes of the Province municipality, district or other local area under a law in force on the first day of January, nineteen hundred and thirty-five, may, notwithstanding that those taxes, duties, cesses or fees are mentioned in the Federal Legislative List, continue to be levied and to be applied to the same purposes until provision to the contrary is made by the Federal Legislature.

144 (1) In the foregoing provisions of this chapter 'net proceeds' means in relation to any tax or duty the proceeds thereof reduced by the cost of collection, and for the purposes of those provisions the net proceeds of any tax or duty, or of any part of any tax or duty, in or attributable to any area shall be ascertained and certified by the Auditor-General of India whose certificates shall be final

(2) Subject as aforesaid, and to any other express provision of this chapter an Act of the Federal Legislature may, in any case where under this Part of this Act the proceeds of any duty or tax are, or may be, assigned to any Province or State, or a contribution is, or may be, made to the revenues of the Federation by any State, provide for the manner in which the proceeds of any duty or tax and the amount of any contribution are to be calculated, for the times in each year and the manner at and in which any payments are to be made, for the making of adjustments between one financial year and another, and for any other incidental or ancillary matters.

The Crown and the States

145. There shall be paid to His Majesty by the Federation in each year the sums stated by His Majesty's Representative for the exercise of the functions of the Crown in its relations with Indian States to be required, whether on revenue account or otherwise, for the discharge of those functions, including the making of any payments in respect of any customary allowances to members of the family or servants of any former Ruler of any territories in India

146. All cash contributions and payments in respect of loans and other payments due from or by any Indian State which, if this Act had not been passed, would have formed part of the revenues of India, shall be received by His Majesty, and shall, if His Majesty has so directed, be placed at the disposal of the Federation, but nothing in this Act shall derogate from the right of His Majesty, if he thinks fit so to do, to remit at any time the whole or any part of any such contributions or payments

147. (1) Subject to the provisions of sub-section (3) of this section, His Majesty may, in signifying his acceptance of the Instrument of Accession of a State, agree to remit over a period not exceeding twenty years from the date of the accession of the State to the Federation any cash contributions payable by that State

(2) Subject as aforesaid, where any territories have been voluntarily ceded to the Crown by a Federated State before the passing of this Act—

(*a*) in return for specific military guarantees or

(*b*) in return for the discharge of the State from obligations to provide military assistance,

there shall if His Majesty, in signifying his acceptance of the Instrument of Accession of that State, so directs, be paid to that State, but in the first mentioned case on condition that the said guarantees are waived, such sums as in the opinion of His Majesty ought to be paid in respect of any such cession as aforesaid

(3) Notwithstanding anything in this section—

(*a*) every such agreement or direction as aforesaid shall be such as to secure that no such remission or payment shall be made by virtue of the agreement or direction until the Provinces have begun to receive moneys under the section of this chapter relating to taxes on income, and, in the case of a remission, that the remission shall be complete before the expiration of twenty years from the date of the accession to the Federation of the State in question, or before the end of the second prescribed period referred to in sub-section (2) of the said section, whichever first occurs; and

(*b*) no contribution shall be remitted by virtue of any such agreement save in so far as it exceeds the value of any privilege or immunity enjoyed by the State, and

(*c*) in fixing the amount of any payments in respect of ceded territories, account shall be taken of the value of any such privilege or immunity.

(4) This section shall apply in the case of any cash contributions the liability for which has before the passing of this Act been discharged by payment of a capital sum or sums, and accordingly His Majesty may agree that the capital sum or sums so paid shall be repaid either by instalments or otherwise, and such repayments shall be deemed to be remissions for the purposes of this section

(5) In this chapter 'cash contributions' means—

(*a*) periodical contributions in acknowledgment of the suzerainty of His Majesty including contributions payable in connexion with any arrangement for the aid and protection of a State by His Majesty, and contributions in commutation of any obligation of a State to provide military assistance to His Majesty, or in respect of the maintenance by His Majesty of a special force for service in connexion with a State, or in respect of the maintenance of local military forces or police or in respect of the expenses of an agent;

(*b*) periodical contributions fixed on the creation or restoration of a State, or on a re-grant or increase of territory, including annual payments for grants of land on perpetual tenure or for equalization of the value of exchanged territory,

(*c*) periodical contributions formerly payable to another State but now payable to His Majesty by right of conquest, assignment or lapse

(6) In this chapter 'privilege or immunity' means any such right, privilege, advantage or immunity of a financial character as is hereinafter mentioned, that is to say—

(*a*) rights, privileges or advantages in respect of, or connected with, the levying of sea customs or the production and sale of untaxed salt,

(*b*) sums receivable in respect of the abandonment or surrender of the right to levy internal customs duties, or to produce or manufacture salt, or to tax salt or other commodities or goods in transit, or sums receivable in lieu of grants of free salt,

(*c*) the annual value to the Ruler of any privilege or territory granted in respect of the abandonment or surrender of any such right as is mentioned in the last preceding paragraph,

(*d*) privileges in respect of free service stamps or the free carriage of State mails on government business,

(*e*) the privilege of entry free from customs duties of goods imported by sea and transported in bond to the State in question, and

(*f*) the right to issue currency notes,

not being a right privilege, advantage or immunity surrendered upon the accession of the State, or one which, in the opinion of His Majesty, for any other reason ought not to be taken into account for the purposes of this chapter

(7) An Instrument of Accession of a State shall not be deemed to be suitable for acceptance by His Majesty, unless it contains such

particulars as appear to His Majesty to be necessary to enable due effect to be given to the provisions of this and the next but one succeeding sections, and in particular provision for determining from time to time the value to be attributed for the purposes of those provisions to any privilege or immunity the value of which is fluctuating or uncertain.

148. Any payments made under the last preceding section and any payments heretofore made to any State by the Governor-General in Council or by any Local Government under any agreements made with that State before the passing of this Act, shall be charged on the revenues of the Federation or on the revenues of the corresponding Province under this Act, as the case may be.

149. Where under the foregoing provisions of this chapter there is made in any year by the Federation to a Federated State any payment or distribution of, or calculated by reference to, the net proceeds of any duty or tax, the value in and for that year of any privilege or immunity enjoyed by that State in respect of any former or existing source of revenue from a similar duty or tax or from goods of the same kind, being a privilege or immunity which has not been otherwise taken into account shall, if and in so far as the Act of the Federal Legislature under which the payment or distribution is made so provides, be set off against the payment or distribution.

Miscellaneous Financial Provisions

150. (1) No burden shall be imposed on the revenues of the Federation or the Provinces except for the purposes of India or some part of India.

(2) Subject as aforesaid, the Federation or a Province may make grants for any purpose, notwithstanding that the purpose is not one with respect to which the Federal or the Provincial Legislature, as the case may be, may make laws

151 (1) Rules may be made by the Governor-General and by the Governor of a Province for the purpose of securing that all moneys received on account of the revenues of the Federation or of the Province, as the case may be, shall, with such exceptions, if any, as may be specified in the rules, be paid into the public account of the Federation or of the Province, and the rules so made may prescribe, or authorize some person to prescribe, the procedure to be followed in respect of the payment of moneys into the said account, the withdrawal of moneys therefrom, the custody of moneys therein, and any other matters connected with or ancillary to the matters aforesaid

(2) In the exercise of his powers under this section the Governor-General or a Governor shall exercise his individual judgment

152. (1) The functions of the Governor-General with respect to the following matters shall be exercised by him in his discretion, that is to say —

(*a*) the appointment and removal from office of the Governor and Deputy-Governors of the Reserve Bank of India, the approval of their salaries and allowances, and the fixing of their terms of office,

(*b*) the appointment of an officiating Governor or Deputy-Governor of the Bank;

(*c*) the supersession of the Central Board of the Bank and any action consequent thereon, and

(*d*) the liquidation of the Bank.

(2) In nominating directors of the Reserve Bank of India and in removing from office any director nominated by him, the Governor-General shall exercise his individual judgment.

153. No Bill or amendment which affects the coinage or currency of the Federation or the constitution or functions of the Reserve Bank of India shall be introduced into or moved in either Chamber of the Federal Legislature without the previous sanction of the Governor-General in his discretion.

154 Property vested in His Majesty for purposes of the government of the Federation shall, save in so far as any Federal law may otherwise provide, be exempt from all taxes imposed by, or by any authority within, a Province or Federated State

Provided that, until any Federal law otherwise provides, any property so vested which was immediately before the commencement of Part III of this Act liable, or treated as liable, to any such tax, shall, so long as that tax continues, continue to be liable or to be treated as liable, thereto

155. (1) Subject as hereinafter provided, the Government of a Province and the Ruler of a Federated State shall not be liable to Federal taxation in respect of lands or buildings situate in British India or income accruing, arising, or received in British India

Provided that—

(*a*) where a trade or business of any kind is carried on by or on behalf of the Government of a Province in any part of British India outside that Province or by a Ruler in any part of British India, nothing in this sub-section shall exempt that Government or Ruler from any Federal taxation in respect of that trade or business or any operations connected therewith or any income arising in connexion therewith or any property occupied for the purposes thereof,

(*b*) nothing in this sub-section shall exempt a Ruler from any Federal taxation in respect of any lands buildings or income being his personal property or personal income

(2) Nothing in this Act affects any exemption from taxation enjoyed as of right at the passing of this Act by the Ruler of an Indian State in respect of any Indian Government securities issued before that date

156 Where under the provisions of this Act the expenses of any court or commission, or the pension payable to or in respect of a person who has served under the Crown in India are charged on the revenues of the Federation or the revenues of a Province, then if—

(*a*) in the case of a charge on the revenues of the Federation, the court or commission serves any of the separate needs of a Province, or the person has served wholly or in part in connexion with the affairs of a Province, or

(*b*) in the case of a charge on the revenues of a Province, the court or commission serves any of the separate needs of the Federation or another Province, or the person has served wholly or in part in connexion with the affairs of the Federation or another Province,

there shall be charged on and paid out of the revenues of the Province or, as the case may be, the revenues of the Federation or of the other Province, such contribution in respect of the expenses or pension as may be agreed, or as may in default of agreement be determined by an arbitrator to be appointed by the Chief Justice of India.

157. (1) The Federation and every Province shall secure that there are from time to time in the hands of the Secretary of State sufficient moneys to enable him to make such payments as he may have to make in respect of any liability which falls to be met out of the revenues of the Federation or of the Province as the case may be.

(2) Without prejudice to their obligations under the preceding sub-section, the Federation and every Province shall secure that there are from time to time in the hands of the Secretary of State and the High Commissioner sufficient moneys to enable payment to be made of all pensions payable out of the revenues of the Federation or the Province, as the case may be in the United Kingdom or through officers accounting to the Secretary of State or to the High Commissioner.

158. (1) His Majesty in Council may make such provisions as may appear to him to be necessary or proper for defining and regulating the relations between the monetary systems of India and Burma and for purposes connected with or ancillary to those purposes, and in particular, but without prejudice to the generality of this section, such provision as may appear to His Majesty to be necessary or proper for the purpose of giving effect to any arrangements with respect to the said matters made before the commencement of Part III of this Act with the approval of the Secretary of State by the Governor of Burma in Council with the Governor-General in Council or any other persons

(2) Any sums required by an Order under this section to be paid by the Federation shall be charged on the revenues of the Federation

159 His Majesty in Council may make provision for the grant of relief from any Federal tax on income in respect of income taxed or taxable in Burma

160 With a view to preventing undue disturbance of trade between India and Burma in the period immediately following the separation of India and Burma and with a view to safeguarding the economic interests of Burma during that period, His Majesty may by Order in Council give such directions as he thinks fit for those purposes with respect to the duties which are, while the Order is in force, to be levied on goods imported into or exported from India or Burma and with respect to ancillary and related matters

CHAPTER II

BORROWING AND AUDIT

Borrowing

161 Upon the commencement of Part III of this Act all powers vested in the Secretary of State in Council of borrowing on the security of the revenues of India shall cease and determine, but nothing in this section affects the provisions of Part XIII of this Act with respect to borrowing in sterling by the Secretary of State.

162 Subject to the provisions of Part XIII of this Act with respect to borrowing in sterling the executive authority of the Federation extends to borrowing upon the security of the revenues of the Federation within such limits if any as may from time to time be fixed by Act of the Federal Legislature and to the giving of guarantees within such limits, if any, as may be so fixed.

163. (1) Subject to the provisions of this section, the executive authority of a Province extends to borrowing upon the security of the revenues of the province within such limits, if any, as may from time to time be fixed by the Act of the Provincial Legislature and to the giving of guarantees within such limits if any, as may be so fixed

(2) The Federation may, subject to such conditions if any, as it may think fit to impose, make loans to, or, so long as any limits fixed under the last preceding section are not exceeded, give guarantees in respect of loans raised by any Province and any sums required for the purpose of making loans to a Province shall be charged on the revenues of the Federation

(3) A Province may not without the consent of the Federation borrow outside India, nor without the like consent raise any loan if there is still outstanding any part of a loan made to the Province by the Federation or by the Governor-General in Council or in respect of which a guarantee has been given by the Federation or by the Governor-General in Council

A consent under this sub-section may be granted subject to such conditions, if any, as the Federation may think fit to impose

(4) A consent required by the last preceding sub-section shall not be unreasonably withheld, nor shall the Federation refuse, if sufficient cause is shown, to make a loan to, or to give a guarantee in respect of a loan raised by a Province or seek to impose in respect of any of the matters aforesaid any condition which is unreasonable, and, if any dispute arises whether a refusal of consent, or a refusal to make a loan or to give a guarantee, or any condition insisted upon, is or is not justifiable, the matter shall be referred to the Governor-General and the decision of the Governor-General in his discretion shall be final

164. The federation may, subject to such conditions, if any, as it may think fit to impose, make loans to, or, so long as any limits fixed under the last but one preceding section are not exceeded, give guarantees in respect of loans raised by, any Federated State.

165. (1) The Colonial Stock Acts, 1877 to 1900, shall, notwithstanding anything in the contrary in those Acts, apply in relation to sterling stock issued after the establishment of the Federation and forming part of the public debt of the Federation as they apply in relation to stock forming part of the public debt of any British Possession mentioned in those Acts, so however that nothing in section twenty of the Colonial Stock Act, 1877, shall be construed as compelling a person desirous of bringing proceedings to proceed in the manner therein specified and that, until Parliament otherwise determines, any conditions prescribed by the Treasury under section two of the Colonial Stock Act, 1900, shall be deemed to have been complied with with respect to all such stock so issued by the Federation

(2) The expression 'colonial stock' in section eleven of the Trusts (Scotland) Act 1921, shall include any stock in relation to which the said Acts apply by virtue of this section.

(3) In paragraph (d) of subsection (1) of section one of the Trustee Act, 1925, the words 'or any other securities the interest in sterling whereon is payable out of and charged on the revenues of India' shall be repealed

Provided that, notwithstanding anything in this Act any securities which by virtue of the said words were immediately before the commencement of Part III of this Act securities in which a trustee might invest trust funds shall continue to be securities in which a trustee may invest such funds

Audit and Accounts

166 (1) There shall be an Auditor-General of India who shall be appointed by His Majesty and shall only be removed from office in like manner and on the like grounds as a judge of the Federal Court

(2) The conditions of service of the Auditor-General shall be such as may be prescribed by His Majesty in Council, and he shall not be eligible for further office under the Crown in India after he has ceased to hold his office

Provided that neither the salary of an Auditor-General nor his rights in respect of leave of absence, pension or age of retirement shall be varied to his disadvantage after his appointment

(3) The Auditor-General shall perform such duties and exercise such powers in relation to the accounts of the Federation and of the Provinces as may be prescribed by, or by rules made under, an Order of His Majesty in Council, or by any subsequent Act of the Federal Legislature varying or extending such an Order

Provided that no Bill or amendment for the purpose aforesaid shall be introduced or moved without the previous sanction of the Governor-General in his discretion

(4) The salary allowances and pension payable to or in respect of an Auditor-General shall be charged on the revenues of the Federation, and the salaries, allowances and pensions payable to or in respect of members of his staff shall be paid out of those revenues

167 (1) If a Provincial Legislature after the expiration of two years from the commencement of Part III of this Act passes an Act charging the salary of an Auditor-General for that Province on

the revenues of the Province, an Auditor-General of the Province may be appointed by His Majesty to perform the same duties and to exercise the same powers in relation to the audit of the accounts of the Province as would be performed and exercised by the Auditor-General of India, if an Auditor-General of the Province had not been appointed:

Provided that no appointment of an Auditor-General in a Province shall be made until the expiration of at least three years from the date of the Act of the Provincial Legislature by which provision is made for an Auditor-General of that Province

(2) The provisions of the last preceding section shall apply in relation to the Auditor-General of a Province and his staff as they apply in relation to the Auditor-General of India and his staff subject to the following modifications, that is to say—

(a) a person who is or has been Auditor-General of a Province shall be eligible for appointment as Auditor-General of India,

(b) in sub-section (3) of the said section for the reference to the Federal Legislature there shall be substituted a reference to the Provincial Legislature and for the reference to the Governor-General there shall be substituted a reference to the Governor, and

(c) in sub-section (4) of the said section for the reference to the revenues of the Federation there shall be substituted a reference to the revenues of the Province

Provided that nothing in this section shall derogate from the power of the Auditor-General of India to give such directions in respect to the accounts of Provinces as are mentioned in the next succeeding section.

168. The accounts of the Federation shall be kept in such form as the Auditor-General of India may, with the approval of the Governor-General, prescribe and in so far as the Auditor-General of India may, with the like approval, give any directions with regard to the methods or principles in accordance with which any accounts of Provinces ought to be kept, it shall be the duty of every Provincial Government to cause accounts to be kept accordingly

169 The reports of the Auditor-General of India relating to the accounts of the Federation shall be submitted to the Governor-General, who shall cause them to be laid before the Federal Legislature, and the reports of the Auditor-General of India or of the Auditor-General of the Province, as the case may be, relating to the accounts of a Province shall be submitted to the Governor of the Province who shall cause them to be laid before the Provincial Legislature

170. (1) There shall be an Auditor of Indian Home Accounts who shall be appointed by the Governor-General in his discretion and shall only be removed from office in like manner and on the like grounds as a judge of the Federal Court.

(2) The conditions of service of the Auditor of Indian Home Accounts shall be such as may be prescribed by the Governor-General in his discretion:

Provided that neither the salary of an Auditor of Indian Home Accounts nor his rights in respect of leave of absence, pension or

age of retirement shall be varied to his disadvantage after his appointment.

(3) The Auditor of Indian Home Accounts shall perform such duties and exercise such powers in relation to transactions in the United Kingdom affecting the revenues of the Federation, of the Federal Railway Authority, or of any Province, as may be prescribed by, or by rules made under, an Order of His Majesty in Council, or by any Act of the Federal Legislature varying or extending such an Order:

Provided that no Bill or amendment for the purpose aforesaid shall be introduced or moved without the prior sanction of the Governor-General in his discretion

(4) The reports of the Auditor of Indian Home Accounts relating to such transactions as aforesaid shall be submitted to the Auditor-General of India, or, in the case of transactions affecting the revenues of a Province which has an Auditor-General, to the Auditor-General of the Province, and shall be included by any such Auditor-General in the reports which under this Part of this Act he is required to submit to the Governor-General or, as the case may be, to the Governor.

(5) The Auditor of Indian Home Accounts shall be subject to the general superintendence of the Auditor-General of India.

(6) The salary, allowances and pension payable to or in respect of the Auditor of Indian Home Accounts shall be charged on the revenues of the Federation, and the salaries allowances and pensions payable to or in respect of members of his staff shall be paid out of those revenues.

(7) His Majesty in Council may require the Auditor of Indian Home Accounts to perform in relation to Burma all or any of the functions which he performs in relation to India, and may fix the payments to be made in respect of his services from the revenues of Burma to the revenues of the Federation, and may make such incidental and consequential provision as may appear to him to be proper.

171 The accounts relating to the discharge of the functions of the Crown in its relations with Indian States shall be audited by the Auditor-General of India, or, in so far as those accounts concern transactions in the United Kingdom by the Auditor of Indian Home Accounts acting on his behalf and under his general superintendence, and the Auditor-General of India shall make to the Secretary of State annual reports on the accounts so audited by him or on his behalf.

APPENDIX D

GOVERNMENT OF INDIA ACT, 1935

SEVENTH SCHEDULE

Legislative Lists

LIST I

Federal Legislative List

1. His Majesty's naval, military and air forces borne on the Indian establishment and any other armed forces raised in India by the Crown, not being forces raised for employment in Indian States or military or armed police maintained by Provincial Governments, any armed forces which are not forces of His Majesty but are attached to or operating with any of His Majesty's naval military or air forces borne on the Indian establishment; central intelligence bureau, preventive detention in British India for reasons of State connected with defence, external affairs or the discharge of the functions of the Crown in its relations with Indian States

2 Naval, military and air force works, local self-government in cantonment areas (not being cantonment areas of Indian State troops) the regulation of house accommodation in such areas, and, within British India, the delimitation of such areas

3. External affairs, the implementing of treaties and agreements with other countries, extradition, including the surrender of criminals and accused persons to parts of His Majesty's dominions outside India.

4. Ecclesiastical affairs, including European cemeteries

5 Currency coinage and legal tender.

6 Public debt of the Federation

7 Posts and telegraphs including telephones wireless broadcasting, and other like forms of communication, Post Office Savings Bank

8. Federal Public Services and Federal Public Service Commission.

9 Federal pensions, that is to say, pensions payable by the Federation or out of Federal revenues.

10. Works, lands and buildings vested in or in the possession of, His Majesty for the purposes of the Federation (not being naval, military or air force works), but, as regards property situate in a Province, subject always to Provincial legislation save in so far as Federal law otherwise provides, and, as regards property in a Federated State held by virtue of any lease or agreement with that State, subject to the terms of that lease or agreement.

11. The Imperial Library, the Indian Museum, the Imperial War Museum, the Victoria Memorial, and any similar institution controlled or financed by the Federation.

12 Federal agencies and institutes for the following purposes, that is to say, for research, for professional or technical training, or for the promotion of special studies.

13. The Benares Hindu University and the Aligarh Muslim University.

14 The Survey of India, the Geological, Botanical and Zoological Surveys of India, Federal meteorological organizations.

15 Ancient and historical monuments, archaeological sites and remains.

16 Census

17 Admission into, and emigration and expulsion from, India, including in relation thereto the regulation of the movements in India of persons who are not British subjects domiciled in India, subjects of any Federated State or British subjects domiciled in the United Kingdom, pilgrimages to places beyond India.

18. Port quarantine, seamen's and marine hospitals, and hospitals connected with port quarantine

19. Import and export across customs frontiers as defined by the Federal Government.

20. Federal railways, the regulation of all railways other than minor railways in respect of safety, maximum and minimum rates and fares, station and service terminal charges, interchange of traffic and the responsibility of railway administrations as carriers of goods and passengers, the regulation of minor railways in respect of safety and the responsibility of the administrations of such railways as carriers of goods and passengers

21. Maritime shipping and navigation, including shipping and navigation on tidal waters, Admiralty jurisdiction

22. Major ports, that is to say the declaration and delimitation of such ports, and the constitution and powers of Port Authorities therein.

23 Fishing and fisheries beyond territorial waters

24. Aircraft and air navigation, the provision of aerodromes, regulation and organisation of air traffic and of aerodromes

25. Lighthouses including lightships, beacons and other provision for the safety of shipping and aircraft

26 Carriage of passengers of goods by sea or by air

27. Copyright, inventions designs trademarks and merchandise marks.

28. Cheques, bills of exchange, promissory notes and other like instruments.

29. Arms, firearms, ammunition

30 Explosives.

31. Opium, so far as regards cultivation and manufacture, or sale for export.

32. Petroleum and other liquids and substances declared by Federal law to be dangerously inflammable, so far as regards possession, storage and transport

33. Corporations, that is to say, the incorporation, regulation and winding-up of trading corporations, including banking, insurance and financial corporations, but not including corporations owned or controlled by a Federated State and carrying on business only within

that State or co-operative societies, and of corporations, whether trading or not, with objects not confined to one unit

34. Development of industries, where development under Federal control is declared by Federal law to be expedient in the public interest.

35. Regulation of labour and safety in mines and oilfields.

36. Regulation of mines and oilfields and mineral development to the extent to which such regulation and development under Federal control is declared by Federal law to be expedient in the public interest.

37. The law of insurance, except as respects insurance undertaken by a Federated State, and the regulation of the conduct of insurance business, except as respects business undertaken by a Federated State; Government insurance, except so far as undertaken by a Federated State, or, by virtue of any entry in the Provincial Legislative List or the Concurrent Legislative List, by a Province.

38. Banking, that is to say, the conduct of banking business by corporations other than corporations owned or controlled by a Federated State and carrying on business only within that State.

39. Extension of the powers and jurisdiction of members of a police force belonging to any part of British India to any area in another Governor's Province or Chief Commissioner's Province, but not so as to enable the police of one part to exercise powers and jurisdiction elsewhere without the consent of the Government of the Province or the Chief Commissioner, as the case may be, extension of the powers and jurisdiction of members of a police force belonging to any unit to railway areas outside that unit.

40. Elections to the Federal Legislature, subject to the provisions of this Act and of any Order in Council made thereunder.

41. The salaries of the Federal Ministers, of the President and Vice-President of the Council of State and of the Speaker and Deputy Speaker of the Federal Assembly, the salaries, allowances and privileges of the members of the Federal Legislature, and, to such extent as is expressly authorized by Part II of this Act, the punishment of persons who refuse to give evidence or produce documents before Committees of the Legislature.

42. Offences against laws with respect to any of the matters in this list.

43. Inquiries and statistics for the purposes of any of the matters in this list.

44. Duties of customs, including export duties.

45. Duties of excise on tobacco and other goods manufactured or produced in India except—

(*a*) alcoholic liquors for human consumption;

(*b*) opium, Indian hemp and other narcotic drugs and narcotics; non-narcotic drugs;

(*c*) medicinal and toilet preparations containing alcohol, or any substance included in sub-paragraph (*b*) of this entry.

46. Corporation tax.

47. Salt.

48. State lotteries.

49. Naturalization.

50 Migration within India from or into a Governor's Province or a Chief Commissioner's Province

51. Establishment of standards of weight.

52. Ranchi European Mental Hospital.

53. Jurisdiction and powers of all courts, except the Federal Court, with respect to any of the matters in this list and, to such extent as is expressly authorized by Part IX of this Act, the enlargement of the appellate jurisdiction of the Federal Court, and the conferring thereon of supplemental powers.

54. Taxes on income other than agricultural income

55 Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies.

56 Duties in respect of succession to property other than agricultural land.

57 The rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, proxies and receipts.

58. Terminal taxes on goods or passengers carried by railway or air, taxes on railway fares and freights

59 Fees in respect of any of the matters in this list, but not including fees taken in any Court

List II

Provincial Legislative List

1. Public order (but not including the use of His Majesty's naval, military or air forces in aid of the civil power), the administration of justice; constitution and organisation of all courts, except the Federal Court, and fees taken therein, preventive detention for reasons connected with the maintenance of public order, persons subjected to such detention

2. Jurisdiction and powers of all courts except the Federal Court, with respect to any of the matters in this list, procedure in Rent and Revenue Courts

3 Police, including railway and village police.

4 Prisons, reformatories, Borstal institutions and other institutions of a like nature, and persons detained therein; arrangements with other units for the use of prisons and other institutions

5. Public debt of the Province

6. Provincial Public Services and Provincial Public Service Commissions

7 Provincial pensions, that is to say, pensions payable by the Province or out of Provincial revenues

8. Works, lands and buildings vested in or in the possession of His Majesty for the purposes of the Province.

9. Compulsory acquisition of land.

10. Libraries, museums and other similar institutions controlled or financed by the Province

11 Elections to the Provincial Legislature, subject to the provisions of this Act and of any Order in Council made thereunder.

12. The salaries of the Provincial Ministers, of the Speaker and Deputy Speaker of the Legislative Assembly, and, if there is a

Legislative Council, of the President and Deputy President thereof; the salaries, allowances and privileges of the members of the Provincial Legislature; and, to such extent as is expressly authorized by Part III of this Act, the punishment of persons who refuse to give evidence or produce documents before Committees of the Provincial Legislature.

13. Local Government, that is to say, the constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration.

14. Public health and sanitation, hospitals and dispensaries, registration of births and deaths

15. Pilgrimages, other than pilgrimages to places beyond India

16. Burials and burial grounds

17. Education.

18 Communications, that is to say, roads, bridges, ferries and other means of communication not specified in List I, minor railways subject to the provisions of List I with respect to such railways, municipal tramways, ropeways, inland waterways and traffic thereon subject to the provisions of List III with regard to such waterways, ports, subject to the provisions in List I with regard to major ports, vehicles other than mechanically propelled vehicles

19. Water, that is to say, water supplies, irrigation and canals, drainage and embankments, water storage and water power.

20. Agriculture, including agricultural education and research, protection against pests and prevention of plant diseases; improvement of stock and prevention of animal diseases, veterinary training and practice; pounds and the prevention of cattle trespass

21. Land, that is to say, rights in or over land, land tenures, including the relation of landlord and tenant, and the collection of rents; transfer, alienation and devolution of agricultural land, land improvement and agricultural loans, colonization, Courts of Wards, encumbered and attached estates, treasure trove

22 Forests

23. Regulation of mines and oilfields and mineral development subject to the provisions of List I with respect to regulation and development under Federal control.

24. Fisheries.

25. Protection of wild birds and wild animals

26 Gas and gasworks

27. Trade and commerce within the Province, markets and fairs; money lending and money lenders.

28. Inns and innkeepers.

29. Production, supply and distribution of goods, development of industries, subject to the provisions in List I with respect to the development of certain industries under Federal control.

30. Adulteration of foodstuffs and other goods, weights and measures.

31. Intoxicating liquors and narcotic drugs, that is to say, the production, manufacture, possession, transport, purchase and sale of intoxicating liquors, opium and other narcotic drugs, but subject, as respects opium, to the provisions of List I and, as respects poisons and dangerous drugs, to the provisions of List III.

32. Relief of the poor; unemployment.

33. The incorporation, regulation, and winding-up of corporations other than corporations specified in List I; unincorporated trading, literary, scientific, religious and other societies and associations, co-operative societies

34 Charities and charitable institutions; charitable and religious endowments.

35. Theatres, dramatic performances and cinemas, but not including the sanction of cinematograph films for exhibition.

36 Betting and gambling

37. Offences against laws with respect of any of the matters in this list.

38. Inquiries and statistics for the purpose of any of the matters in this list

39. Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenue.

40. Duties of excise on the following goods manufactured or produced in the Province and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India—

(*a*) alcoholic liquors for human consumption;

(*b*) opium, Indian hemp and other narcotic drugs and narcotics, non-narcotic drugs;

(*c*) medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (*b*) of this entry.

41. Taxes on agricultural income.

42 Taxes on lands and buildings, hearths and windows

43. Duties in respect of succession to agricultural land.

44. Taxes on mineral rights, subject to any limitations imposed by any Act of the Federal Legislature relating to mineral development.

45. Capitation taxes

46 Taxes on professions, trades, callings and employments.

47 Taxes on animals and boats.

48. Taxes on the sale of goods and on advertisements.

49. Cesses on the entry of goods into a local area for consumption, use or sale therein.

50 Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling

51. The rates of stamp duty in respect of documents other than those specified in the provisions of List I with regard to rates of stamp duty

52 Dues on passengers and goods carried on inland waterways.

53. Tolls.

54 Fees in respect of any of the matters in this list, but not including fees taken in any Court

List III

Concurrent Legislative List

PART I

1. Criminal law, including all matters included in the Indian Penal Code at the date of the passing of this Act, but excluding offences against laws with respect to any of the matters specified

in List I or List II and excluding the use of His Majesty's naval, military, and air forces in aid of the civil power.

2. Criminal Procedure, including all matters included in the Code of Criminal Procedure at the date of the passing of this Act.

3. Removal of prisoners and accused persons from one unit to another unit.

4. Civil Procedure, including the law of Limitation and all matters included in the Code of Civil Procedure at the date of the passing of this Act; the recovery in a Governor's Province or a Chief Commissioner's Province of claims in respect of taxes and other public demands, including arrears of land revenue and sums recoverable as such, arising outside that Province

5. Evidence and oaths, recognition of laws, public acts and records and judicial proceedings

6. Marriage and divorce, infants and minors, adoption.

7. Wills, intestacy, and succession, save as regards agricultural land.

8 Transfer of property other than agricultural land, registration of deeds and documents

9. Trusts and Trustees

10. Contracts, including partnership, agency, contracts of carriage, and other special forms of contract, but not including contracts relating to agricultural land.

11. Arbitration.

12. Bankruptcy and insolvency, administrators-general and official trustees.

13. Stamp duties other than duties or fees collected by means of judicial stamps, but not including rates of stamp duty

14. Actionable wrongs, save in so far as included in laws with respect to any of the matters specified in List I or List II.

15 Jurisdiction and powers of all courts except the Federal Court, with respect to any of the matters in this list

16. Legal, medical and other professions.

17. Newspapers, books and printing presses

18. Lunacy and mental deficiency, including places for the reception or treatment of lunatics and mental deficients

19. Poisons and dangerous drugs

20. Mechanically propelled vehicles

21. Boilers.

22. Prevention of cruelty to animals.

23 European vagrancy, criminal tribes.

24. Inquiries and statistics for the purpose of any of the matters in this Part of this List.

25. Fees in respect of any of the matters in this Part of this List, but not including fees taken in any Court.

PART II

Section 126 (2)

26. Factories.

27. Welfare of labour, conditions of labour, provident funds, employers' liability and workmen's compensation; health insurance, including invalidity pensions, old age pensions.

28. Unemployment insurance.

29. Trade unions; industrial and labour disputes.

30. The prevention of the extension from one unit to another of infectious or contagious diseases or pests affecting men, animals or plants.

31. Electricity

32. Shipping and navigation on inland waterways as regards mechanically propelled vessels, and the rule of the road on such waterways; carriage of passengers and goods on inland waterways.

33. The sanctioning of cinematograph films for exhibition.

34. Persons subjected to preventive detention under Federal authority.

35 Inquiries and statistics for the purpose of any of the matters in this Part of this List

36. Fees in respect of any of the matters in this Part of this List, but not including fees taken in any Court.

APPENDIX E

THE GOVERNMENT OF INDIA (DISTRIBUTION OF REVENUES) ORDER, 1936

At the Court at Buckingham Palace,
the 3rd of July, 1936

Present

THE KING'S MOST EXCELLENT MAJESTY IN COUNCIL

WHEREAS by subsection (1) of section one hundred and thirty-eight of the Government of India Act, 1935 (hereafter in this Order referred to as 'the Act') it is provided that taxes on income other than agricultural income shall be levied and collected by the Federation, but that (subject to the provisions of the said subsection with respect to surcharges for Federal purposes) a percentage to be prescribed by His Majesty in Council of the net proceeds in any financial year of any such tax, except in so far as those proceeds represent proceeds attributable to Chief Commissioners' Provinces or to taxes payable in respect of Federal emoluments, shall be assigned to the Provinces and to the Federated States, if any, within which that tax is leviable in that year, and shall be distributed among the Provinces and those States in such manner as may be prescribed by His Majesty in Council

AND WHEREAS by subsection (2) of the said section one hundred and thirty-eight the Federation is, notwithstanding anything in subsection (1) of that section, authorized to retain out of the moneys assigned by the said subsection (1) to Provinces and States—

(*a*) in each year of a period to be prescribed by His Majesty in Council such sum as may be so prescribed,

(*b*) in each year of a further period to be so prescribed a sum less than that retained in the preceding year by an amount, being the same amount in each year, so calculated the sum to be retained in the last year of the period will be equal to the amount of each such annual reduction

AND WHEREAS by subsection (2) of section one hundred and forty of the Act it is provided that one-half, or such greater proportion as His Majesty in Council may determine, of the net proceeds in each year of any export duty on jute or jute products shall be assigned to the Provinces or Federated States in which jute is grown in proportion to the respective amounts of jute grown therein:

AND WHEREAS by section one hundred and forty-two of the Act it is provided that such sums as may be prescribed by His Majesty in Council shall be charged on the revenues of the Federation in each year as grants in aid of the revenues of such Provinces as His Majesty may determine to be in need of assistance:

AND WHEREAS by virtue of the provisions of Part XIII of the Act references in the subsections and sections aforesaid to the Federation are, as respects the period elapsing between the commencement of Part III of the Act and the establishment of the Federation, to be construed as references to the Governor-General in Council:

AND WHEREAS a draft of this Order has been laid before Parliament in accordance with the provisions of subsection (1) of section three hundred and nine of the Act and an Address has been presented to His Majesty by both Houses of Parliament praying that an Order may be made in the terms of this Order:

NOW THEREFORE, His Majesty, in the exercise of the powers conferred on him as aforesaid and of all other powers enabling him in that behalf, is pleased, by and with the advice of His Privy Council, to order, and it is hereby ordered, as follows:

Introductory

1. This Order may be cited as 'The Government of India (Distribution of Revenues) Order, 1936.'

2. The Interpretation Act, 1889, applies for the interpretation of this Order as it applies for the interpretation of an Act of Parliament.

3. As respects the period elapsing between the commencement of Part III of the Act and the establishment of the Federation, references in this Order to the Federation shall be construed as references to the Governor-General in Council

4. Any reference in this Order to a year shall be construed as a reference to a period of twelve months beginning on the first day of April.

Taxes on Income

5. The percentage which under subsection (1) of section one hundred and thirty-eight of the Act is to be prescribed by His Majesty in Council shall be fifty per cent, and the sums falling to be distributed under that subsection in any year among the Provinces shall be distributed as follows

	Per cent.
Madras	15
Bombay	20
Bengal	20
The United Provinces	15
The Punjab	8
Bihar	10
The Central Provinces and Berar	5
Assam	2
The North-West Frontier Province	1
Orissa	2
Sind	2

6 (1) The first of the periods to be prescribed by His Majesty in Council under subsection (2) of the said section one hundred and thirty-eight shall be five years from the commencement of Part III

of the Act and the sum to be retained by the Federation under that subsection shall, in each of those years, be either the whole of the moneys assigned by subsection (1) of the said section to Provinces and States, or such part thereof as will together with—

(*a*) the Federation's share of the divisible net proceeds of the taxes on income for that year; and

(*b*) the sum, if any, to be brought into account by the Federation under sub-paragraph (3) of this paragraph, amount to thirteen crores of rupees, whichever is the less.

(2) In this paragraph, ' the divisible net proceeds of the taxes on income ' means the net proceeds of the taxes on income to which the said section one hundred and thirty-eight relates, except in so far as they represent proceeds attributable to Chief Commissioners' Provinces or to taxes payable in respect of Federal emoluments, or proceeds of any surcharge for Federal purposes.

(3) The sum, if any, to be brought into account by the Federation in any year for the purposes of sub-paragraph (1) of this paragraph shall be a sum to be ascertained by applying to the accounts of the railways with such alterations in accounts as are necessitated by the separation of Burma, the principles laid down in the Resolution of the Legislative Assembly of the twentieth day of September nineteen hundred and twenty-four, and ascertaining in accordance with those principles what sum, if any, would be the net amount payable for that year under clauses (2) and (3) of that Resolution to general revenues out of the net receipt of the railways

Provided that for the purpose of ascertaining the net amount so payable to general revenues, borrowings from the depreciation fund before the commencement of Part III of the Act shall be deemed not to be repayable, and arrears of contributions to general revenues for any year before the commencement of the said Part III shall be deemed not to be payable.

7. The second period to be prescribed by His Majesty in Council under subsection (2) of the said section one hundred and thirty-eight shall be five years from the expiration of the first period prescribed thereunder.

Jute Export Duty

8. The proportion of the net proceeds in each year of any export duty on jute or jute products which under subsection (2) of section one hundred and forty of the Act is to be assigned to the Provinces or Federated States in which jute is grown shall be sixty-two and one-half per cent.

Grants-in-aid to Certain Provinces

9. There shall be charged on the revenues of the Federation as grants in aid of the revenues of the Provinces mentioned in the Schedule to this Order the sums specified in that Schedule in relation to those Provinces respectively, in each of the years so specified.

M. P. A. HANKEY

Schedule

Grants to Certain Provinces

1. *The United Provinces.* 25 lakhs of rupees in each year of the first five years from the commencement of Part III of the Act.

2 *Assam.* 30 lakhs of rupees in each year.

3 *The North-West Frontier Province.* 100 lakhs of rupees in each year.

4. *Orissa.* In the first year after the commencement of Part III of the Act, 47 lakhs of rupees; in each of the next four succeeding years, 43 lakhs of rupees; and in every subsequent year, 40 lakhs of rupees.

5. *Sind.* In the first year after the commencement of Part III of the Act, 110 lakhs of rupees, in each of the next nine years, 105 lakhs of rupees, in each of the next twenty years, 80 lakhs of rupees, in each of the next five years, 65 lakhs of rupees; in each of the next five years, 60 lakhs of rupees, and in each of the next five years, 55 lakhs of rupees.

APPENDIX F

STATISTICAL TABLES

General

Table 1A. Revenue of Certain Leading Countries
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,, 4. Principal Revenues (Gross)
,, 5. Principal Revenues (Net)
,, 6 Principal Items of Expenditure
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,, 8 Details of Revenue from Income-Tax
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,, 10 Details of Excise Revenue (Drink and Drugs)
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,, 13 Financial Position of Railways
, 14 Financial Results of Irrigation, 1936-7

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,, 17 Revenue and Expenditure, Bengal
,, 18. Revenue and Expenditure, United Provinces
,, 19 Revenue and Expenditure, Punjab
,, 20 Revenue and Expenditure, Central Provinces
,, 21. Revenue and Expenditure, Assam
,, 22. Revenue and Expenditure, Bihar and Orissa, till 1935-6.
,, 23. Revenue and Expenditure, Bihar, Orissa and Sind, from 1936-7

Local Bodies

Table 24. Income and Expenditure of District and Local Boards
,, 25. Income and Expenditure of Municipalities.
,, 26. Income and Expenditure of District and Local Boards in Different Provinces in 1935-6
,, 27 Income and Expenditure of Municipalities in Different Provinces in 1935-6.

Indian States

Table 28. Area, Population and Revenue of the Principal Indian States.
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,, 30. Revenue and Expenditure, Mysore
,, 31 Revenue and Expenditure, Jammu and Kashmir.
,, 32 Revenue and Expenditure, Baroda.
,, 33. Revenue and Expenditure, Travancore.
,, 34. Revenue and Expenditure, Indore.
,, 35 Revenue and Expenditure, Cochin.

TABLE 1A—REVENUE OF CERTAIN LEADING COUNTRIES[1]

		Total Revenue	Income-tax	Inheritance tax	Excise	Customs	Land and Property Tax	Sales Tax (including tax on transactions)
U.K. £ 000,000	1928-29.	836·4	295 4	80 6	134 0	119 0	0·8	...
	1935-36	824·8	285·7	80·0	106 4	188 6	0·8	...
France Franc 000,000	1930-31	50465 1	11846 6	193 0	3272 9	5275 9	1586·0	9225 8
	1935 ...	40449 9	7881 2	218 0	3287·0	6691 7	1050·0	6024 6
Germany RM 000,000	1928-29.	7279 2	3718 1	73 5	1773 0	1104 6	450·8	1000 1
	1934-35..	6766 5	2040·6	72 5	2224 9	1249 6	302 9	2020·3
Italy Lira 000,000	1928-29...	20830·5	360 5	85 1	2310 6	3470 5	1071·6	4485·5
	1936-37..	21564 5	523 0	163 0	2097 2	4083 0	742·2	4390 9
Sweden Kroner 000,000	1928-29...	732·5	149·3	.	166 1	154 0	...	.
	1935-36 .	926 9	148 0	..	262 5	137·0	11·7	...
U S. A. $ 000,000	1928-29...	3906 0	2331 3	...	...	602·8	61·9	...
	1936-37..	5828 2	2372 9	...	428·3	446 8	305·1	...
Canada C$ 000,000	1928-29...	460·9	59·4	..	63 7	187·2	...	...
	1936-37 .	451·5	102 0	..	45·5	81 5	..	..
Australia £ 000,000	1928-29...	74 9	9 8	.	11 6	29·5	5·1	.
	1936-37 .	82 8	8 6	..	14·2	28 8	3·2	
Japan Yen 000,000	1928-29...	1551 3	280 8	29 2	323 2	150 9	67·8	74·2
	1936 ...	1601 8	399 0	32 6	338 0	153 0	58·8	97 4
Russia Roubles 000,000	1928-29.	7364 0	1135 5	1 7	1802·7	258·2	449·4	398·7
	1936-37	73565·0	3237 3	...	...	820·0	1139·2	62,950·4
India Rs. 000,000	1928-29...	1289 8	167 0	...	158·7	468·1	3·8	..
	1936-37...	1227·6	156·7	...	230 0	414·2	2·2	...

Compiled from *Public Finance*, 1928-35 (League of Nations)

TABLE 1B.—EXPENDITURE OF CERTAIN LEADING COUNTRIES[1]

Country	Year	Total Expenditure	Defence Charges	Home Department, Law & Justice, Police, etc.	Education	Public Health	Social Welfare (Poor relief, etc.)
U. K. £ 000,000	1928–29 .	818 0	113·5	12 1	49·5	23·5	52·4
	1935–36 ..	824 3	124·2	17·0	54·1	23·3	137·5
France Franc 000,000	1930–31 ...	50,398·2	12,948 9	322·9	2,93·48	1,247·2	1
	1936	40,306·8	8,523·7	321 1	2,994 9	1,115·7	...
Germany RM 000,000	1928–29 ..	8,516 9	757 9	142 0		1,145 3	
	1934–35 .	8,232 3	1,104·5	60 5	28·1	964·9	
Italy Lira 000,000	1928–29 .	19,646 0	4,289 0	1,459 0	1,394·0	166·0	
	1934 35 ..	20,847 0	5,161·0	1,381 0	1,687·0	203 0	
Sweden Kroner 000,000	1928–29	701 2	133·4	24·1	135·8	90·2	
	1935–36 .	867·3	120 9	29·6	151·4	167·5	
U. S. A. $ 000,000	1928–29 ...	3,722 5	1,168 6	285 0	.	10·4	
	1936–37	8,480 8	1,593 1	72 9	..	20 6	470·0
Canada C$ 000,000	1928–29 ...	356 9	19 7	17·2	..	1·3	...
	1936–37	535 2	37 7	16 7	...	0·9	55·8
Australia £ 000,000	1928–29 . .	81·3	34 6	0·34	..	0·14	11·31
	1936–37	110 7	25 0	0·79	..	0·13	16·79
Japan Yen 000,000	1928–29 ...	1,814·9	517 2	338·3	135·0	...	..
	1936–37	2,311·5	1,060·1	194·9	142 8	.	.
Russia Roubles 000,000	1928–29 ..	6,339·9	793·7	253·1	374·5	70·7	187·4
	1936–37 ..	78,715 0	14,815 5	3,081·8	4,918·1	1,501 4	90 0
India Rs. 000,000	1928–29 ...	1,293 0	584·9	23·8	13 8	5·0	..
	1936–37 ...	1,227 0	503·8	24·5	10·8	6·2	...

[1] Compiled from *Public Finance*, 1928–35 (League of Nations).

TABLE 2—PUBLIC DEBT OF CERTAIN LEADING COUNTRIES

		Total Debt	Internal Debt	External Debt	Interest Charges		Redemption Charges	
					Internal	External	Internal	External
United Kingdom (£) 000,000	1936	7,901·6	6,865 1	1,036 5	210·9		13·1	
United States (Dollar) 000,000	1936...	33,545 4	33,545·4	...	835·0	...	404 5	...
France (Franc) 000,000	1936..	...	337,760 7	...	9917 2			
Germany (Reichs mark) 000,000	1936. .	14,439 2	12,761·4	1,677·9	. .			
Italy (Lira) 000,000	1936 .	108,636·6	107,078·0	1,558·6	5,579·3		387 4	
Japan (Yen) 000,000	1936..	10,307·9	8,976·0	1,331·9	...		...	...
[illegible] (£) 000,000	1936...	1,255·8	665·7	590·1	24 2	20·7	..	
Canada (Dollar C) 000,000	1936..	3,431·9	2,628·5	803·4	136·4		3·9	
India (Rupee) 000,000	1936...	12,098·0	7,064·7	5,033·3	124·4		44·6	

Source: *Statistical Year Book of the League of Nations*, 1936–7.
The figures for India are from the Statistical Abstract, 1936–7.

TABLE 3—REVENUE AND EXPENDITURE OF BRITISH INDIA (CENTRAL AND PROVINCIAL GOVERNMENTS), 1861-1938 (GROSS)

N.B—In the following tables, years represent 1 May to 30 April till 1867 and 1 April to 31 March after that year.

Year	Revenue (crores)		Expenditure (crores)		Surplus + or Deficit −
1861 ..	43 2		43 6		−·4
1862 ..	44·4		42 9		+1·5
1863	44·0		44 3		−·3
1864 ...	44 8		45·3		−·5
1865 .	46 0		44 6		+1·4
Average ...		44 5		44 1	+0·4
1866	49 9		43 7		−2 8
1867 ...	47·9		49 0		−1 1
1868 .	48·6		51 3		−2 7
1869 ..	50·0		49 8		+ 2
1870	50 6		49 1		+1·5
Average .		47 6		48 6	−1·0
1871 ...	50 0		46 9		+ 3 1
1872 ...	50 2		48 4		+1·8
1873 .	49 6		51·4		−1 8
1874 ..	50 6		50 2		+ 4
1875 ..	53 0		57·4		+1 6
Average ..		51 9		50 9	+1 0
1876 .	58 6		61 2		−2 6
1877 ...	62 0		66 2		−4·2
1878 .	65 2		63 1		+2·1
1879	68·4		69 7		−1 3
1880 ...	74·3		77 9		−3·6
Average ...		65 7		67 6	−1·9
1881 ..	75 7		72 1		+3 6
1882 ...	70 3		69 9		+·4
1883 ...	71 8		70 0		+1 8
1884 .	70 7		71·1		−·4
1885	74 5		77·3		−2·8
Average ...		72 6		72 1	+0 5
1886 ...	77 3		77 1		+ 2
1887 .	78 8		80 8		−2 0
1888	81 7		81 6		+·1
1889 .	85·1		82 5		+2 6
1890 ..	85 7		82 0		+3 7
Average ...		81 7		80 8	+0 9
1891 ...	89 1		88 7		+ 4
1892 ..	90·2		91·0		−·8
1893 ...	90 6		92 1		−1 5
1894 ...	95 2		94·5		+·7
1895 .	98·1		96 6		+1 5
Average .		92 6		92 6	+0 0
1896 ...	94 1		95·8		−1·7
1897	96·4		101·3		−5·4
1898 .	101·4		97·5		+3 9
1899 ...	102 9		98 8		+4·1
1900	112 8		110 4		+2·4
Average ..		101·5		100 9	+0·6
1901 ..	114 4		107 1		+7·3
1902 ...	116·1		111·4		+4·7
1903 ...	125 5		121 0		+4·5
1904 ...	127 2		121·9		+5·3
1905 ..	109 9		106·8		+3·1
Average		118 6		113 6	+5·0

TABLE 3—REVENUES AND EXPENDITURE OF BRITISH INDIA (GROSS)—(*contd*)

Year	Revenue (crores)	Expenditure (crores)	Surplus + or deficit −
1906 ...	109 6	107 2	+ 2 4
1907	106 5	106 0	+ 0 5
1908 ...	104 5	110 2	— 5 7
1909 .	111·9	111 0	+ 0 9
1910	120 9	115 0	+ 5 9
Average	110 7	109 9	+ 0 8
1911 ...	124 2	118 3	5 9
1912 ..	130 3	125 6	4 6
1913	127 8	124 3	3 5
1914	121 7	124 4	2 7
1915	126 6	128 4	— 1·8
Average	126 1	124 2	+ 1 9
1916 ..	147 0	135 9	+ 11 2
1917 ...	168 9	156 7	+ 12 2
1918	184 9	190 6	— 5 7
1919	195 6	219 2	— 23 6
1920	206 1	232 1	— 26 0
Average	180 4	186 8	— 6 4

Year	Central			Provincial		
	Revenue	Expenditure	Surplus + or deficit −	Revenue	Expenditure	Surplus + or deficit −
1921	115 2	142 8	−27 6	70 4	79 2	− 8·8
1922	121 4	136 4	−15 0	75 7	77 2	− 1 5
1923	132 8	130 4	+ 2 4	78 9	76 1	+ 2 8
1924	137 5	131 8	+ 5 7	81 3	78 4	+ 2·9
1925	133 2	129 9	+ 3 3	87 5	85 9	+ 1 6
Average	128 0	134 2	− 6 2	78 8	79 4	− 0 6
1926	131 7	131 7	+ 0 0	86 4	90 2	− 3 8
1927	127 2	127 2	+ 0 0	93 3	91 5	+ 1·8
1928	129 0	129 3	− 0 3	91 5	92 9	− 1 4
1929	132 7	132 4	+ 0 3	94 6	93·8	+ 0·8
1930	124 6	136 2	−11 6	83 1	94 2	−11 1
Average	129 0	131 3	− 2 3	89 8	92 5	− 2 7
1931	121 6	133 4	−11 8	83 2	86 7	− 3 5
1932	125 4	123 9	+ 1 5	84 3	85·7	− 1 4
1933	119 4	119 4	+ 0 0	82 8	85·9	− 3 1
1934	122·1	121 8	+ 0·3	86 3	85 4	+ 0·9
1935	121 1	121 1	+ 0 0	89·0	88 7	+ 0·3
Average	121 9	123 9	− 2 0	85 1	86 5	− 1 4
1936	117 8	119 6	− 1 8	92·3	91 6	+ 0·7
1937	122 6	122 5	+ 0 1	85·8	83 2	+ 2 6
1938 (revised)	122·3	122 2	+ 0 1	85·6	87 0	− 1·4

TABLE 4.—PRINCIPAL REVENUES (GROSS)

(In Crores of Rupees)

Year	Land revenue	Customs	Income-tax	Salt	Excise	Opium	Railways
1861 ..	19 5	2·8	2 0	4 5	1 6	6 3	.
1862 ...	19·4	2·4	1 8	5·2	1·7	8·0	
1863 .	19 9	2·3	1 4	5 0	1 8	6·8	
1864	19·7	2 2	1 2	5 5	2·0	7 3	
1865 .	20·0	2·2	69	5 3	2·0	8·5	
Average	19·7	2 4	1·4	5 1	1·8	7 4	
1866 .	18 7	2 0	02	5 3	1·8	6 8	
1867	19·9	2 5	·65	5 7	2 2	8·9	
1868 .	19 8	2 6	5	5 5	2·2	8·4	.
1869 ..	21 0	2 4	1 1	5 3	2 2	7 9	.
1870 ..	20·6	2 6	2 0	6·1	2·3	8·0	
Average	20·0	2·4	0 9	5 6	2 1	8·0	
1871 ...	20·5	2 5	88	5 9	2·3	9·2	
1872 .	21 3	2 6	·58	6 1	2 3	8·6	
1873 . .	21 0	2 6	02	6 1	2·2	8 3	...
1874 ..	21 2	2 6	003	6 2	2 3	8·5	...
1875 .	21 5	2 7	01	6 2	2 4	8 4	4·5
Average .	21 1	2 6	0 3	6 1	2 3	8 6	...
1876 ..	19·8	2 4	01	6 3	2 5	9 1	5·4
1877 ..	19 8	2 6	1	6 4	2·4	9 1	7·2
1878 ...	22 3	2 3	9	6·9	2·6	9·3	6·2
1879 ...	21·8	2·2	7	7·2	2·8	10·3	7·3
1880 ...	21·1	2 5	5	7 1	3·1	10 4	9·4
Average ...	21 2	2 4	0 4	6 9	2·7	9·6	6·9
1881	21·9	2 3	5	7 3	3 4	9·8	10 8
1882 ,,,	21 8	1 2	5	6 1	3 6	9 4	10 9
1883 ..	22·3	1 1	·5	6 1	3 8	9·5	11·9
1884 .	21 8	1 0	·5	6·5	4 0	8 8	11·8
1885 .	22 5	1·2	5	6 3	4 1	8·9	13 6
Average	22·1	1 4	0 5	6 5	3 8	9·3	11 8
1886 . .	23·0	1 2	1 3	6 6	4·3	8·9	14 4
1887 .	23 1	1·3	1 4	6 6	4 5	8 5	14·5
1888	23 0	1 3	1·5	7 6	4·7	8 5	15·5
1889 .	23 9	1·5	1 59	8 1	4 8	8 5	16 6
1890	24 0	1·7	1·6	8·5	4 9	7 8	17·2
Average	23 4	1·4	1 5	7·5	4 6	8·4	15·8
1891 ...	23 9	1 7	1 6	8·6	5 1	8·0	19·9
1892	24·9	1·6	1 6	8·6	5 2	7·9	19 0
1893 ...	25 5	1 6	1·7	8·2	5 3	6 6	20·2
1894	25 4	3 8	1·8	8 6	5 5	7·3	21·2
1895 .	26 2	5·0	1·8	8·8	5·7	7 1	21·8
Average	25 2	2 7	1 7	8 6	5 4	7·4	20·4
1896 ..	23 9	4 4	1·8	8·4	5 6	6·4	20·2
1897	25 6	4 6	1 8	8 5	5·4	5·1	21·2
1898 .	27·4	4 8	1 9	9·1	5·7	5·7	22·7
1899 .	25·8	4 6	1·9	8·7	5·7	6 6	24·9
1900	26·2	4 9	1·9	8·8	5·8	7·6	27·4
Average . .	25 8	4·7	1·9	8 7	5 6	6·3	23·3
1901 ..	27 4	5·7	1·9	8·8	6·0	7·2	30·3
1902 .	27 6	5·8	2 1	9·1	6·6	6·7	30·1
1903	28 8	5·9	1 8	7·8	7·4	8 5	32·2
1904 ...	28·3	6 4	1·8	7 9	7·9	9·0	36·0
1905 ..	28·2	6·4	1·9	6·4	8·4	8·1	19·3
Average .	28·1	6·0	1·9	8 0	7 3	7·9	29·6

TABLE 4.—PRINCIPAL REVENUES (GROSS)—(*contd.*)

Year	Land Revenue	Customs	Income-tax	Salt	Excise	Opium	Railways
1906	29·7	6 4	2 1	6 4	8 8	8 4	19 3
1907	28·0	7·5	2 2	4 9	9 3	7 8	18·7
1908	29·5	7 2	2 2	4 8	9 4	8 8	14·8
1909 ...	31 9	7 3	2 2	4 9	9 7	8 2	18 6
1910	31 2	9 9	2·4	4·6	10 5	11 2	20 8
Average	30 1	7·7	2 2	5 1	9 5	8 9	18·4
1911	31·0	9 6	2 4	5 1	11 4	8 8	23 8
1912	31 9	10·6	2 5	4 9	12 3	7 6	26·1
1913 ..	32·1	11·2	2 8	5 1	13 3	2 4	26 4
1914	31 8	9·4	3 1	5 9	13 2	2 4	23 7
1915 ..	33 0	8 9	3 1	5 4	12 9	2 9	26 9
Average	32 0	9 9	2 8	5 3	12 6	4 8	25 4
1916	33 0	12 9	5 7	7 2	13 8	4 7	32 0
1917	32 4	16 5	9·5	8 3	15 1	4·5	36·2
1918 .	31 5	18 1	11 6	6 3	17 2	5 0	37 4
1919	33 9	22 5	23 2	5 8	19·2	4 6	31·8
1920	32·0	31 9	22 2	6 8	20 4	3 5	25 0
Average	32·6	20 4	14 4	6 9	17 1	4 5	32·5
1921	34 7	34 4	22 1	6 3	17 2	3 1	15 2
1922	35 4	41 3	18 0	6 8	18·5	3 8	26 8
1923	34 9	39 7	18 2	10 0	19 4	4 2	32·7
1924 .	35 8	45 8	16·0	7 4	19 5	3 8	37 2
1925	35 6	47 8	15 9	6 3	19 9	4 1	34·4
Average .	35 3	41 8	18 0	7·4	18 9	3 8	29 3
1926 .	34 9	47 4	15 6	6 7	19 8	4 3	34·1
1927	35 7	48 2	15 1	6 6	19 8	3 9	38·7
1928 ..	33 2	49 3	16 7	7 6	20 0	3 3	37 5
1929 .	33 5	51 3	16 7	6 8	20 4	3·0	37·2
1930	30 3	46 8	16 0	6 8	16 8	2 5	39 1
Average	33 5	48 6	16 0	6·9	19 4	3 4	37 3
1931	33 0	46·4	17 5	8·6	14 9	2 1	33 6
1932	30 9	52 0	18 0	10·1	14 9	0 9	33·4
1933 ..	30 0	47·2	17 1	8 9	15 0	1 6	33 0
1934	32 3	52 7	17 6	8 0	15·0	0 8	32·4
1935 ...	32 2	54 1	17·1	8 4	15 3	0 6	32 0
Average ...	31 7	50 5	17 5	8 8	15 0	1 2	32·9
1936	31 9	53·6	15 4	8·8	15 4	0·5	32·7
1937 ...	28 8	45 9	13 4	8 4	14 6	0 5	32·7

TABLE 5.—PRINCIPAL REVENUES (NET)
(In Crores of Rupees)

Year	Land Revenue	Customs	Income-tax	Salt	Excise	Opium	Railways
1861	17·4	2 5	1 8	3 8	1·5	4·9	—
1862	17·3	2 2	1·7	4·6	1 7	6·1	—
1863	17 7	2·1	1 4	4·6	1·6	4·5	—
1864	17·4	1 9	1 2	5 1	1 7	4 9	—
1865	17·7	1·9	0·66	4 9	1·7	6·6	—
Average	17 5	2·1	1·4	4 6	1 6	5·4	—
1866	16 5	1 7	0 0	5 0	1 6	5 7	—
1867	17 5	2 3	0 6	8 3	1 9	7·0	—
1868	17 3	2 4	0·4	8 1	1 9	6 7	—
1869	18 6	2 1	1 0	5 4	1 9	6 1	—
1870	18·2	2 3	1 9	5 6	2 0	6 0	—
Average	17 6	2 2	0 8	5 3	1 9	6 3	—
1871	18 2	2 3	0 7	5 4	2 2	7 6	—
1872	18·8	2 4	0 6	5 6	2 1	6 8	—
1873	18·5	2 4	0 0	5 6	2 1	6 3	—
1874	18 8	2 4	0 0	5 7	2 2	6·2	—
1875	18·5	2 5	0 0	5 7	2 4	6 2	— 1 5
Average	18 6	2 4	0 2	5 6	2 2	6 6	—
1876	16 9	2 2	0 01	5 8	2 4	6 2	— 1 1
1877	16 9	2 4	0 1	5 9	2 3	6 5	— 0·1
1878	19·3	2 1	0 8	6 5	2 5	7 7	— 2 0
1879	18 9	2 0	0 7	6 9	2 7	8 2	— 1 5
1880	18 1	2 3	0 5	6 7	3 0	8 4	— 1 0
Average	18 0	2·2	0·4	6 4	2 6	7·4	— 1·1
1881	18 9	2 1	0 5	6 8	3 3	7 8	— 0·2
1882	18 8	1 1	0 5	5 7	3 5	7·2	— 1·3
1883	19·0	1·0	0 5	5 6	3 7	7·7	— 0·3
1884	18 4	0 8	0 5	6 0	3 9	5 8	— 1 0
1885	19 1	1 0	0 5	5 9	4 0	5 8	— 0 7
Average	18 8	1 2	0 5	6 0	3 7	6 9	— 0 7
1886	19·5	1 1	1 3	6·1	4 2	6 2	— 1 1
1887	19 7	1 2	1·4	6 2	4 4	6 0	— 2·1
1888	19 5	1 1	1 49	7 2	4·5	5 9	— 2 2
1889	20 3	1 3	1 56	7 7	4 7	6 9	— 1·8
1890	20 3	1 6	1 5	8 0	4 7	5 6	— 0·6
Average	19 9	1·3	1 5	7·0	4 5	6·1	— 1·6
1891	20 1	1·5	1 6	8 1	4 9	6·1	— 0·3
1892	20 9	1 4	1 6	8·1	5 0	6 3	— 1 8
1893	21 5	1·5	1 7	7 7	5 1	4 7	— 1 5
1894	21 3	3 6	1·7	8·1	5 3	5 7	— 2·3
1895	22 1	4·8	1 8	8·3	5 5	5·0	— 1·6
Average	21 2	2 6	1·7	8 1	5·2	5 6	— 1 5
1896	19 8	4 2	1·8	7 8	5 4	3 9	— 2 6
1897	21·4	4 4	1·8	8 1	5·2	2·7	— 1·4
1898	23·4	4·5	1·8	8 6	5 5	3·3	— 0·9
1899	21·8	4·5	1 87	8·3	5 6	4·4	0·2
1900	22·0	4 7	1·87	8 4	5 6	5·4	0 6
Average	21·7	4 5	1 8	8 2	5·5	3·9	— 0·8

TABLE 5.—PRINCIPAL REVENUES (NET)—(*contd.*)
(In Crores of Rupees)

Year	Land Revenue	Customs	Income-tax	Salt	Excise	Opium	Railways
1901	23·2	5 5	1 87	8 4	5 8	4·8	1·2
1902	23 3	5 6	2 07	8 7	6 4	4·3	1·7
1903	24 3	5 7	1 77	7 4	7·1	5·2	1·2
1904	23 5	6·2	1 77	7 5	7 6	6 2	3·2
1905	23 3	6 2	1 87	6 0	8 1	5 3	3 0
Average	23 5	5 8	1 9	7 6	7 0	5 2	2 1
1906	24 8	6·1	2 07	6·0	8 4	5·6	3·3
1907	22 8	7 2	2 17	4 5	8 9	5 4	2·4
1908	24 1	6 9	2 17	4 4	8 9	7 0	— 2·0
1909	26 5	7 0	2 17	4 5	9 2	6 6	1·2
1910	25 8	9·6	2 37	4 2	9 9	9 4	3·1
Average	24 8	7·4	2 2	4 7	9 1	6 8	1·6
1911	25·5	9 3	1 36	4 7	10 8	7 8	5·7
1912	26·2	10 3	2 47	4 5	11 7	6 7	7·2
1913	26 3	10 8	2 76	4 7	12 7	0 9	7·2
1914	26 0	9 1	3 01	5 4	12·6	1 5	3 3
1915	27 2	8 6	3 09	4 9	12 3	1 2	6 0
Average	26 2	9 6	2 5	4 8	12 0	3 6	5 9
1916	27 3	12·6	5 62	6 6	13 2	3·3	11·3
1917	26 9	16 1	8 35	7·7	14 2	2·9	14·9
1918	25·4	17 7	11 4	5·5	16 5	3 0	15 8
1919	26 5	22 1	22 28	4 9	18 3	3 3	13·8
1920	23·9	31 4	20 71	5 8	19 2	2 3	5 6
Average	26·0	20 0	12 5	6 1	16 3	3 0	12 3
1921	28·8	33 8	21 7	4 8	16 0	1 3	— 9·1
1922	29 4	40 6	17 5	5 3	12 2	1 9	1·2
1923	29·7	39 0	17·6	8 6	18 1	1 7	6 4
1924	32 0	45 0	15 4	6 2	18 2	1 4	6 8
1925	31 5	47 0	15 3	5 1	17 4	2 0	5 5
Average	30 3	41 1	17 5	6 0	16 4	1 7	2 2
1926	30 7	46 6	15 0	5 5	17 4	3 3	6 0
1927	31 5	47 4	14 4	5 4	17·6	3 1	6·3
1928	28 9	48 3	16·0	6·4	17·8	2 7	5 2
1929	29 2	50·3	16·0	6 5	18·2	2 6	6·1
1930	26 1	45 9	15 3	5 6	14 6	1 8	5·8
Average	29 3	47 7	15·3	5 9	17·1	2 7	5 9
1931	29·0	45·5	16·8	7 4	13 0	1 3	0·0
1932	27 4	51 0	17·2	9·0	13 1	0·1	0·0
1933	26·5	46·2	16·3	7·7	13·2	0 9	0·0
1934	30·0	52 7	17·5	8 0	12 6	0 7	0·0
1935	28·4	52 2	17·1	8·4	13 2	0 6	0·0
Average	28·3	49·5	17·0	8 1	13·0	0 7	0·0
1936	28·3	52·0	14·5	7·7	13 5	0 2	0·0
1937	25·7	44·8	13 1	7·3	13·1	0·3	2·8

TABLE 6.—PRINCIPAL ITEMS OF EXPENDITURE

(In Crores of Rupees)

Year	Defence	Police	Law and Justice	General Administration	Education	Public Health	Civil Works	Agriculture	Debt Charges
1891	24 1	3 9	3 7	1 8	1·4	2·2	4·4		4·3
1892	25 3	3·9	3·8	1·8	1 4	2 1	4·0		4·4
1893	24 8	3 9	3 9	1 9	1 5	2·1	4·0		4 4
1894	25 0	4 0	4·0	2 0	1 6	1 6	3 7		5·1
1895	26 4	4 0	4 0	2 0	1 5	1·6	3·9		4·0
Average	25 1	3 9	3 9	1 9	1 5	1 9	4·0		4·4
1896	25 2	4 2	4 2	2 0	1·6	3 2	4 0		3 5
1897	27 7	4 2	4 3	2 0	1 6	6 7	3 6		3 3
1898	24 8	4·2	4·1	2 0	1 6	2·8	4 0		3·0
1899	23·4	4·3	4·1	2 1	1 6	4 6	4 3		2·9
1900	23 7	4·4	4 4	2 0	1 6	7·6	4 3		3 2
Average	25 0	4 3	4 2	2 0	1 6	5 0	4 0		3·2
1901	24·7	4 4	4 4	2 0	1 7	2 6	4 2		2 9
1902	26 4	4·1	4 4	2 1	1 3	2·5	4 2		2·7
1903	27 2	4·2	4 5	2 1	1 3	2 4	4 7		2·5
1904	31 1	4·3	4 6	2 1	1 5	2 6	4 9		2 5
1905	29 5	4·6	4 8	2 3	1 8	2 6	6 0		2·1
Average	27·8	4 3	4 5	2 1	1 5	2 5	4 9		2 5
1906	30 3	5 3	5 1	2 3	2 0	2 7	6 1		2 9
1907	28 9	5 7	5 2	2 4	2 2	3 2	6 5		2 7
1908	29 4	6 3	5 5	2 5	2 5	4 0	6 3		3 0
1909	28 7	6 3	5 4	2 5	2·6	2 9	5 8		3·2
1910	28 9	6 5	5 6	2 6	2 7	2 9	6 4		3 3
Average	29 2	6 0	5 4	2 5	2 4	2 9	6 2		3 0
1911	29 3	6 9	5 7	3·9	3 0	3 2	7 7	0 7	3·1
1912	29 3	7 0	5 8	2 9	3 9	3 5	8 6	0 7	2 7
1913	29 8	7·3	6 1	3 0	4 8	3 5	10·1	0·8	2·3
1914	30 7	7 9	6 5	3 1	5 0	3 8	10 4	0·8	1·8
1915	33 4	8 0	6 6	3·0	4 7	3 7	7 7	0 9	1 8
Average	30 5	7 4	6 1	3·2	4 3	3 5	8 9	0 8	2·3
1916	37 5	8 1	6 6	3 1	4 7	3 6	6·4	0 9	1·8
1917	43 6	8 4	6 7	3 2	5 1	3 9	7·1	1 1	11·0
1918	66 7	9 2	7 3	3 7	6 0	4·1	8 0	1 2	12 2
1919	87 0	10 2	7 9	3·9	6 9	4 9	10 1	1 4	13·4
1920	87 4	12 0	9 2	5 4	7·8	5 3	11 8	1 7	16 4
Average	64 4	9 6	7 5	3 9	6 1	4 4	8·7	1 3	11·0
1921	69·8	12 8	7 8	10 3	9·0	6·1	12·6	2 0	17·0
1922	65·3	12 6	8 0	10 6	9 2	6·0	9 3	1 9	17·5
1923	58 2	12·0	7 8	10 8	9·9	5 7	9·6	1 9	19·2
1924	55 6	12·1	7·9	12 3	10·2	6 1	9 2	2 0	21·1
1925	56 0	12 1	8 2	12·5	11·4	6 7	11·3	2·2	21 6
Average	60 6	12·3	7 9	11 3	9·9	5 9	10·4	2·0	19·3
1926	56 0	12 4	8 3	12 8	12·1	7·1	13·8	2 4	19·7
1927	54 8	12 2	8 5	12·9	12 7	6 3	14·1	2·6	18·5
1928	55 1	12 7	8 6	13·1	13 2	6·7	13 4	2·8	18·5
1929	55 1	13·1	8·8	13·9	13·6	7·2	13 0	3·1	19·4
1930	54 3	13·6	9 0	14·1	13·8	6 7	12·9	3·1	20·2
Average	55·1	12·8	8 6	13·4	12·9	6·8	13·4	2 8	19·3
1931	51·8	13·4	8·1	13 7	12·8	6 3	8·7	2·7	23·0
1932	46 7	12·9	7·6	12·6	11·8	5 4	7·6	2·4	22·3
1933	44 2	12·9	7·8	12·0	12·0	5 5	7·7	2·5	16·1
1934	44·3	12·7	7·7	12·1	12·1	5 6	10·0	2·6	16·4
1935	45 0	12·9	7·9	12·5	12·3	5·7	10·4	2 8	17·1
Average	46·4	13·0	7·8	12·6	12·2	5·7	8·9	2 ·6	19·0
1936	45·5	13·0	8·0	13·1	12 6	6·2	8 8	3·1	15·5
1937	47 4	11·2	7·1	12·0	11·9	5·6	7·8	2 0	16·3

TABLE 7.—DETAILS OF LAND REVENUE
(In Lakhs of Rupees)

Year (1)	Revenue (2)		Expenditure (3)		Net Revenue (4)		Portion due to Irrigation (5)		Total Revenue (4+5)	
1911-12	31,14·70		5,67·97		25,46·73		2,02·72		27,49·45	
1912-13	31,92·37		5,80·20		26,12 17		2,30·74		28,42 91	
1913-14	32,08·74		5,97·96		26,10 78		2,52 66		28,63·44	
1914-15	31,83·23		5,87·10		25,96 13		2,50 18		28,46 31	
1915-16	33,04·67		5,85 56		27,19 11		2,66 06		29,85·17	
1916-17	33,06·19		5,71 97		27,34 22		2,74 07		30,08 29	
1917-18	32,41·09		5,67 34		26,73 75		2,65·33		29,39·08	
1918-19	31,63·49		6,15·65		25,47·84		2,85 67		28,33 51	
1919-20	33,91 49		6,44 62		27,46·87		2,91 78		30,38·65	
1920-21	31,97 48		8,10 34		23,87 14		2,85 64		26,72·78	
	Central	Provincial	Central	Provincial	Central	Provincial	Central	Provincial	Central	Provincial
1921-22[1]	33·18	34,38 99	14 68	5,77 24	18 50	28,61 75	1·98	3,47·73	20 48	32,09 48
1922-23	42 93	34,92 23	13 37	5,79 53	29 56	29,12 70	1 98	3,59 82	31 54	32,72·52
1923-24	43·06	34,46 53	11·16	5,06 86	31·90	29,39·67	1 91	4,14 34	33·81	33,54·01
1924-25	37·81	35,45 77	11 21	3,73·23	26·60	31,72·54	1 80	4,34 23	28 40	36,06·77
1925-26	38·53	35,16·78	12·30	3,99·21	26 23	31,17 57	2 12	4,32 32	28 35	35,49 89
1926-27	41·00	34,47 31	12 50	4,10 02	28 50	30,37 29	1 82	4,26 95	30·32	34,64 24
1927-28	40·92	35,27 82	11 44	4,13·39	29 48	31,14 43	2 84	4,48 69	32·32	35,63 12
1928-29	38·32	32,77·80	12 02	4,18·70	26·30	28,59 19	2 45	5,81 10	28 75	34,40 29
1929-30	38·17	33,08·94	10 90	4,15·59	27·27	28,93·35	2 63	5,88·22	29·90	34,81·57
1930-31	33·94	29,93·76	9·92	4,07·60	24 02	25,86 16	2 71	5,59 66	26 73	31,45 82
1931-32	33·94	32,65 10	9 21	3,91 19	24 73	28,73 91	2 43	5,38·69	27 16	34,12·60
1932-33	17·86	30,67·94	5·40	3,47·96	12 46	27,19 98	0 93	5,88 34	13·39	33,08·32
1933-34	17·60	29,82 00	5·67	3,42 82	11·93	26,39 18	0 85	6,11·30	12·78	32,50·48
1934-35	20·92	32,08·65	5 87	3,42·24	15 05	28,66·41	1·05	5,37·40	16·10	34,03·81
1935-36	26·25	31,91·54	6·12	3,43 34	20·13	28,48·20	0·92	6,59·48	21·05	35,07·68
1936-37	17·42	31,71·13	6 53	3,52·13	10·89	28,19·00	3·92	6,82 93	21 33	38,54·07
1937-38	19·18	28,59·52	5·53	3,07·56	13·65	25,51·96	4·00	3,68·17	17·65	29,20·13

[1] From 1921-22 ' Land Revenue ' became a provincial head and the Central Government derived Land Revenue from places directly under its control.

TABLE 8.—DETAILS OF REVENUE FROM INCOME-TAX
(In Lakhs of Rupees)

Year	Revenue from Ordinary collections	By deduction from Salaries and Pensions	By deduction from Interest on Govt securities	Refunds	Total Income-tax	Super Tax	Excess profits duty	Miscellaneous	Total Revenue
1911–12	190 85	45 26	8 99		245 10			2 83	247·93
1912–13	202·64	46 28	9 67		258 59			2 77	261·36
1913–14	233 26	47 76	8 97		289 99			2 55	292 54
1914–15	244 37	48 65	9 42		302 44			3 07	305·51
1915–16	252 58	48 33	9 50		310 41			3 11	313·52
1916–17 .	464 93	71 29	23 39		559 61			6 33	565 94
1917–18	609 92	78 40	27 79		716 11	221 59		8 52	946 22
1918–19	717 31	87 85	26 68		827 84	318 82		13 11	1163 77
1919–20	998 23	97 87	25 67		1121 77	263 53	922 80	12 68	2320 78
1920–21	1342 07	53 15		127 54	1267 68	635 90	188 16		2091 74
1921–22	1608 59			190 16	1418 43	777 58	21 53		2217 55
1922–23	929 76	169 79	431 58	264 33	1266 80	545 77	1 37		1813 94
1923–24	1233 38	134 07	43 35	136 15	1274 65	574 28	0 19		1849 12
1924–25 ...	1066 74	130 49	43 13	87 94	1152 42	470 21	0 23		1622 86
1925–26	1119 17	139 30	42 34	140 47	1160 34	457 85	0 01	. .	1618 20
1926–27	1094 76	143 71	50 21	135 52	1153·21	452 24	0 18		1605·63
1927–28	1085 73	153 32	53 78	139 15	1153 68	389 04	0 01	0 26	1542·99
1928–29	1155 64	157 05	60 99	148·13	1225 55	479 85	−0 05	0·36	1705 71
1929–30	1176 69	160 88	72 03	156 63	1252 98	452 92	0·01	0·39	1706 30
1930 31	1078 86	166 73	86 38	129 70	1202 28	427 80	0 01	0·89	1630 98
1931–32	1180 82	223 11	133 98	134 38	1403·54	352 73	0 01	0·67	1756 95
1932–33	1255 69	218 49	167 20	155 64	1485 73	313 93	0·01	0 64	1800·31
1933–34	1195 15	262 62	184 63	178 26	1464 13	251 39	0 01	0 36	1715·89
1934–35	1225 03	272 74	174 56	213 99	1458 35	298 63	.	1·06	1758·04
1935–36	1209 59	266 11	154·50	221·68	1408 53	300 48	0·04	0·91	1709·96
1936–37	1104 82	234 33	129 45	223 75	1244·86	291·35	. .	1·02	1537·23
1937–38 . .	1143·61	222·86	120·01	244·17	1242·31	147·10	...	1 02	1390·43

TABLE 9.—YIELD OF THE INCOME-TAX IN THE DIFFERENT PROVINCES (NET)

(In Lakhs of Rupees)

Year	Madras	Bombay	Bengal	United Provinces	Punjab	Bihar and Orissa	Central Provinces	Assam	India General	Total Yield (including Burma)
1911–12	31 70	53 14	51 10	24 16	16 11		6 96	.	24 14	2,43 69
1912–13	34 45	56 62	53 98	25 20	16 80	12 87	7 29	3 98	25 13	2,57 10
1913–14	37 09	65 64	64 83	26 81	17 03	13 40	8 50	4 22	26 36	2,87 85
1914–15	39 88	67 31	68·31	27 38	17 76	13 79	8 95	4 53	27 07	3,00 61
1915–16	40 15	71 77	70 74	28 03	18 43	13 82	9 32	4 55	25 56	3,08 35
1916–17	59 44	1,39 06	1,66·92	42 47	24 35	19 76	13 03	6 72	46 45	5,60 37
1917–18	80 73	2,76 32	3,37 78	52 71	35 70	23 48	15 94	9 13	56·54	9,39·84
1918–19	1,04 29	3,87 04	3,48 78	71 77	39 75	27 15	18 46	8 92	67 32	11,55 43
1919–20	1,60·87	7,22 12	9,48 59	1,02 94	54 46	35 32	55 19	7·76	76 12	23,05 51
1920–21	1,93 00	6,73 17	8,36 64	92 01	63 80	35 36	34 44	10 71	90 86	21,97 21
1921–22	1,73·32	8,29 66	6,54 41	1,17 20	53 77	39 82	54 49	8 29	1,02 28	21,88 59
1922–23	1,27 46	7,80 06	3,20 04	92 70	70·76	56 63	56 92	9 02	93 28	17,69 38
1923–24	1,54·93	5,18 51	5,96 59	83 42	71 41	45 02	54 55	13 37	94 27	17,86·46
1924–25	1,21 52	3,89 86	5,46 51	73 29	55 59	38 91	47 18	20 87	90 49	15,60 86
1925–26	1,33 55	3,37 55	5,84 08	74 42	60 05	34 26	34 43	17 59	95 65	15,53 32
1926–27	1,25·31	3,06 54	5,60 38	67 58	63 22	54 01	35 33	19 74	1,01 79	15,36 52
1927–28	1,31·59	5,09 01	4,78 40	75 93	68 93	41 44	25 92	18 13	1,11·64	14,77 08
1928–29	1,28 09	3,01 56	6,04·27	82 70	58 79	92 50	31 45	20 42	1,18 73	16,36 69
1929–30	1,32·50	3,52 20	6,07 33	83·21	56 59	45 92	29 71	17·69	1,29 34	16,35 50
1930–31	1,28 90	3,25·35	5,46 04	82 25	50 85	45 59	32 75	16·06	1,36 58	15,56 25
1931–32	1,50·40	4,06 99	4,47 97	1,02 10	68 66	59 91	38 69	18·77	1,91 59	16,83·11
1932–33	1,57 98	4,42 94	4,28 20	1,08 17	78 89	65 27	34 94	17·88	2,11 43	17,16 90
1933–34	1,60·46	4,38·69	3,58 42	1,14·73	80·72	58 72	30 92	20·72	2,27 48	16,33·40
1934–35	1,53 15	4,03 31	4,20·97	1,25 53	82 66	61 83	26 09	16·77	2,39·45	16,72·93
1935–36	1,45·70	3,98·96	4,32·81	1,20·08	78·72	53 76	21·45	14·87	2 22·12	16,18·59
1936–37	1,08·54	3,87·22	4,32·13	87 80	91 80	49·26	18·11	17·12	1,20·24	14,48 59[1]
1937–38	1,00·65	3,54·21	3,80·15	76·48	99 09	39·10	10·67	19·00	1,11·62	11,91·20[1]

[1] Does not include Burma

TABLE 10.—DETAILS OF EXCISE REVENUE (DRINK AND DRUGS)
(In Lakhs of Rupees)

Year	(1) License and distillery fees and duties for the sale of drinks and drugs		(2) Miscellaneous		(3) Duty on hemp drugs, ganja, etc.		(4) Returns from commercial undertakings		(5) Total	
	Central	Provincial	Central	Provincial	Central	Provincial	Central	Provincial	Central	Provincial
1911-12	8,57·50		11·86		167·38		1,04 72		11,41·46	
1912-13	9,26 80		5 33		180 29		1,29·28		12,41·69	
1913-14	9,89 35		5·71		202·63		1,36·45		13,34·15	
1914-15	9,77·03		6 95		212 33		1,32·21		13,28 53	
1915-16	9,30 20		6·89		216·41		1,41·33		12,94·83	
1916-17	10,07 80		7·49		223·55		1,43 53		13,82·38	
1917-18	11,31 05		7 63		234·53		1,51·04		15,24·26	
1918-19	13,06 27		8·88		255 17		1,63 32		17,33·63	
1919-20	14,63 33		10·16		285 37		1,67 09		19,25 94	
1920-21	15,49·52		11·89		313·85		1,68 39		20,43 65	
1921-22	50 48	14,38·56	0 07	7·07	1 50	79 76	1 87	1,50·81	53 80	16,64·82
1922-23	46 56	15,49 83	0 06	10 83	3·18	96 74	2 01	1,60·96	51·69	18,03·53
1923-24	45·15	16,39 26	0 15	10 82	1 41	96 94	1·84	1,56·51	48·25	18,92·27
1924-25	39 00	16,08 85	0 17	37·85	1 18	1,17·69	1 67	1,56 09	41·99	19,09·69
1925-26	37 28	15,59 11	0 42	26·16	1·80	1,12 51	2 85	2,62 71	42·21	19,47·66
1926-27	36·32	15,28 79	0·49	30·09	1 61	1,17 97	2 77	2,78 44	41·13	19,41·55
1927-28	47 40	15,48 67	0·49	28 59	1 77	1,18 52	3·26	2,62 20	52·15	19,30·01
1928-29	41·43	13,58·48	0 28	21 52	11·29	5,72·36[1]	...	[1]14·48	53 01	19,66·86
1929-30	40·57	14,08·79	0 41	20 01	14·19	5 63 66	...	15 61	55·16	20,08·07
1930-31	32·47	11,28·50	0 32	18 98	13·81	4,86 58	.	12·17	46·61	16,46 25
1931-32	36·12	9,94·48	0 29	18·11	14·85	4,34 22	...	10·66	51·26	14,57 46
1932-33	30 99	10,31·49	0·23	18 98	10 37	4,17·65	.	0 04	41·59	14,68·15
1933-34	29·73	10,49·62	0·26	20·85	10·35	4,05·45	...	0 30	40·33	14,76·22
1934-35	29·79	10,54·87	0·20	21·84	10·88	4,06·02	...	0·03	40·77	14,82·75
1935-36	28·11	10,80·65	0·27	23·20	10·60	4,03·73	.	0·02	38·98	15,07·60
1936-37	27 62	10,91·78	0·22	23·71	10·98	4,04·23		..	38 82	15,19·73
1937-38	16·28	10,77·41	0·03	11·67	7·25	3,89 05	...	.	23·57	14,78·12

[1] Change in the classification of accounts led to the wide disparity between the figures for this and the previous year.

EXPLANATORY NOTE TO TABLE 10

1911-12 to 1920-21—

(1) Liquors foreign or made in India
Country spirits,
Toddy revenue.
(2) Miscellaneous.
(3) Opium and its preparations,
Other drugs, ganja, bhang, etc
Pachawai revenue
Duty on ganja
(4) Gains on sale proceeds of excise opium, etc

1921-22 to 1927-28—

(1) License and distillery fees for the sale of drink and drugs
(2) Fines, confiscations and miscellaneous
(3) Transit duty on opium and duty on ganja and acreage on poppy
(4) Gain on sale proceeds of excise opium and other drugs,
Recoveries of investments in Government commercial undertakings,
Profits from Government commercial undertakings
Recoveries of indirect charges from Government commercial undertakings

After 1927-28—

(1) Country spirits—country fermented liquor—malt liquors, wines and spirits, receipts from commercial spirits, medicated wines, and distilleries.
(2) Fines, confiscations, etc —recoveries of over payments,—collection of payments for services rendered.
(3) Opium, hemp and other drugs
(4) Recoveries of investments in Profits from and recoveries of indirect charges from commercial undertakings

In the Government accounts, 'excise' is applied chiefly to the taxation imposed on drugs and intoxicants produced in the country The excise duty on motor spirit, kerosene, silver, sugar, matches, iron and steel, and mechanical lighters are credited to 'customs'.

TABLE 11.—DETAILS OF SALT REVENUE

(In Lakhs of Rupees)

Year	Sales of Government salt	Excise duty on salt manufactured locally	Duty on salt imported	Miscellaneous	Refunds and Assignments	Charges for collection	Net receipts
1911–12 .	31 70	3,24 15	1,46 22	6 60	38 17	55 16	4,15·34
1912–13 . .	32 43	3,23 17	1,37 28	7 27	38 59	56 00	4 05 56
1913–14 . .	31 53	3,27 33	1,49 85	8 08	39 42	54 69	4,22 68
1914–15 .	42 50	3,75 62	1,61 03	7 47	40 50	53 82	4,92 30
1915–16 ..	39 58	3,54·26	1 42 77	10 53	41 22	56 13	4,49 79
1916–17 .	51 29	5,07·89	1,55 28	9 48	39 61	59 47	6,24 86
1917–18 .	87 70	5,97 43	1,28 04	11 75	43 60	64 06	7 17·26
1918–19 .	55 58	4,41 82	1,28 15	16 15	97 03	82 64	4,62 03
1919–20 .	33 98	3,74 24	1,54 77	11 80	48 42	80 87	4,45 50
1920–21 .	48 60	4,64 94	1,55 22	7 69	96·21	92 91	4,87 33
1921–22 .	43·03	4,08 80	1,77 78	14·60	46 67	1,18 52	4 79 02
1922 23 ...	47 86	4,58 15	2,07 40	18 06	89·09	1,10 38	5,32 00
1923–24 .	68 92	6,97 85	2,32 09	13 51	48 40	97 82	8,66 15
1924–25 .	40 56	4,68 85	2,66 67	9 70	83 10	82·96	6,19 72
1925–26 ..	38 35	3,88 92	2,01 80	7 96	44 31	84 42	5,08 27
1926–27	42 69	4,14 13	2,07 45	8 59	41 23	81 13	5,50·50
1927–28 . .	41 72	4,19 12	1,97 00	10 03	45 72	83 91	5,38·24
1928–29 ..	54 94	4,89 52	2,08 27	13 10	45 39	82·86	6,37 58
1929–30 ..	41 70	4,13·55	2,15 50	10 13	44·12	86 23	5,50·53
1930–31 ...	34·73	4,04·30	2,37·14	14·35	46·43	86 29	5,57 80
1931–32 ...	41 85	5,26·83	2,95 49	13·92	42·56	78 25	7,57 28
1932–33 ...	53·53	6,41·41	3,29 15	14 37	55·17	71 97	9,11 32
1933–34 .	45 34	5,65·04	2,82·12	13 42	54·68	73 85	7,77·39
1934–35 ...	40·08	5,18·45	2,46 03	12 66	53 55	74 29	6,89 38
1935–36 ...	41·60	5,42·72	2,64 60	11·82	54 63	78·56	7,27·55
1936–37 . .	39·67	5,77·43	2,78·01	5 13	24 59	1,07 69	7,67·96
1937–38 ...	40·05	5,72·53	2,39 57	4·79	23 94	1,06 20	7,26·80

TABLE 12.—FINANCIAL STATISTICS OF RAILWAYS IN INDIA
(In Rupees 000)

Year	Total Capital at Charge	Gross Earnings	Working Expenses	Net Earnings	Percentage of Working Expenses to Gross Earnings	Percentage of Net Earnings on Total Capital at Charge
1911–12	450,07	55,28	28,84	26,44	52 17	5 87
1912–13	465,15	61,65	30,16	31 49	48 92	6 77
1913–14	495,09	63,59	32,93	30 66	51 79	6 19
1914–15 ..	519,22	60,43	32 75	27,68	54 19	5 33
1915–16	529,98	64,06	32,32	31,74	50·91	5 99
1916–17 .	535,28	70,68	33,40	37,28	47 26	6 96
1917–18 ..	541,80	77,36	35,36	42,00	45 72	7 75
1918–19	549,74	86,29	41,80	44,49	48 45	8 09
1919–20	566 38	89,15	50,65	38,50	56 81	6 80
1920–21	626,81	91,99	60,29	31,70	65 54	5 06
1921–22 ..	647,97	92,89	70,80	22,09	76 22	3 41
1922–23	697,46	105,65	72,99	32,66	69 09	4·68
1923–24	717,93	107,80	68,45	39,35	63 50	5 48
1924–25	733,37	114,75	69,37	45,38	60 45	6 19
1925–26	754,32	113,39	71,09	42,30	62 69	5 61
1926–27	788,67	112,36	69,70	42,66	62 04	5 41
1927–28	822,86	118,26	72,60	45,66	61 39	5 55
1928–29	831,39	118,87	74,62	44,25	62 77	5 32
1929–30 .	856,75	116,08	75,48	40,60	65 02	4 74
1930–31	869,81	106,57	74,23	32,34	69 66	3 72
1931–32 ..	876,34	97,20	69,09	28,11	71 08	3 21
1932–33	884,91	96,21	68,90	27,31	71 61	3·09
1933–34	884,41	99,58	69,54	30,04	69 84	3·40
1934–35 ..	885,47	102,81	70,60	32,21	68 67	3 64
1935–36 .	879,59	103,84	70,94	32,90	68·31	3 74
1936–37	880,13	108,07	69,93	38,14	64 71	4 33
1937–38 .	845,68	107,57	69,63	37,94	64 73	4·49

TABLE 13.—FINANCIAL POSITION OF RAILWAYS

(In Rs. 000)

Class and Name of Railway	Capital at Charge on	
	31 March 1929	31 March 1937
CENTRAL GOVERNMENT		
COMMERCIAL LINES		
State Railways worked by the State		
East Indian (including Bihar)	1,39,75	1,47,70
Eastern Bengal	47,84	51,48
Great Indian Peninsular	1,11,82	1,14,58
North Western (including New Capital Railway Works, Delhi)	1,02,68	1,13,05
Burma	32,76	34,69
Railway Collieries	98	1,87
Total	4,35,83	4,63,36
State Railways worked by Companies or Indian States		
Assam Bengal	21,62	23,87
Bengal Nagpur	71,61	77,84
Bezwada (including Dhone-Kurnool)	33	46
Bombay, Baroda and Central India	70,24	73,78
Jodpur (British Section)	83	1,16
Lucknow Bareilly (Rohilkund—Kumaon)	1,56	2,54
Madras and Southern Mahratta	54,75	53,31
South Indian	35,88	45,68
Tirhoot (Bengal and North Western)	9,26	10,01
Contribution to Depreciation Reserve Fund	..	..
Total	2,66,08	2,88,63
Miscellaneous	3,20	3,09
Total Commercial	7,05,11	7,55,08
STRATEGIC LINES		
North Western	33,10	33,80
Total Central Government	7,38,21	7,88,88
PROVINCIAL GOVERNMENTS		
Government of Assam—Jorhat (Reserved)	13	13
Government of U.P.—Distillery Sidiq (Reserved)	1	1
Total Provincial Governments	14	14
Grand Total	7,38,35	7,89,02

TABLE 13.—FINANCIAL POSITION OF RAILWAYS
(In Rs. 000)

Net Receipts		Percentage of net Revenue Receipts on Capital at Charge		Total Charges		Percentage of Gain or Loss on Capital at Charge	
1928–29	1936–37	1928–29	1936–37	1928–29	1936–37	1928–29	1936–37
8,14	7,62	5.83	5 16	5,70	5,57	1 74	1 18
2,34	1,15	4 88	2 24	1 80	1,94	1 12	−1 53
5,26	4,65	4 70	4·05	4 19	4,19	0 94	0 40
4,22	6,00	4·11	5·30	4,09	4,46	0 13	1·36
1,95	1,06	5 94	3 04	1,69	1,42	0 79	−1·05
.	.	.		5	8	−5·11	−4 42
21,90	20,47	5 01	4·42	17,51	17,97	0 99	0 54
97	23	4 49	0 71	87	92	0 48	−3·13
2,35	2,52	3 29	2 20	3,30	3,23	−1 33	−1·95
5	5	14 97	9 38	1	2	10 66	5 30
5,09	5,57	7 24	6 86	2,84	2,90	3 20	2 93
3	14	3·24	12 58	3	5	−0 69	8 41
19	24	12 17	8 30	11	11	5 15	4·02
4,58	2,62	8·35	4 54	2,97	2,44	2·94	−0 05
2,44	1,94	6 81	3 60	1,59	1,75	2 38	−0 23
1,03	95	11 08	7 94	38	39	7 00	4 05
−80	−8	.		.			
15,93	14,18	5 83	4 20	12,10	11,81	1 44	0 11
..	.	.	.	−16	12	0 50	−3·88
37,83	34,65	5 35	4 32	29,45	29,90	1 17	0 36
−32	−63	−0·96	−1·85	1,42	1,34	−5 24	−5 81
37,51	34,02	5 08	4·05	30,87	31,24	0 89	0 09
. .	.	.	. .	.	..	−2 63	−3·31
..	.	...	...	...	. .	−5·64	−4 55
...	.	...	...	...	...	−3 74	−3·43
37,51	34,02	5·08	4·05	30,87	31,24	0·89	0·09

TABLE 14 —FINANCIAL RESULTS OF IRRIGATION, 1936 37

(In Rs 000)

Provinces and Canals	Capital outlay to the end of 1936–37	Total Revenue receipts	Working expenses	Interest on capital	Rate per cent on capital outlay to the end of 1936–37
Central Government—					
Pishin Canal (Baluchistan)	28,95	30	53	1,08	−4 55
Nari Weir Canal (,,)	6,28	10	10	27	−4·26
Tank Projects (Rajputana)	34,21	95	64	1,15	−2 45
Total (Unproductive) .	69,44	1,35	1,27	2,50	−3 49
Nasirabad Section of Lloyd Barrage & Canals System (Sind)	1,07,53	3,15	8,95	5,17	−10·20
Total Central Government	1,76,97	4,50	10,22	7,67	.
Provincial Governments—					
Government of Madras					
Cauvery Delta System	78,33	13,86	2,36	3,15	10 65
Godavari Delta System	1,68,84	51,98	11,44	6,13	20 38
Pennar River Canals System	58,82	5,92	1,09	1,98	4·85
Periyar System ...	1,04,65	8,61	1,89	3,51	3·07
Kistna Delta System	2,20,96	44,91	9,30	8,08	12 46
Lower Coleroon Anicut System	29,13	4,63	1,38	1,13	7 20
Divi pumping System	25,89	3,18	35	97	7·18
Toludur Reservoir Project	23,51	83	45	1,01	−2·69
Cauvery Mettur Project ...	6,48,54	11,04	3,77	31,44	−3·73
Kattalai Scheme	38,51	1,10	48	1,86	−3·23
Other Projects	73,78	9,88	3,61	2,77	4 74
Total Productive	14,70,96	1,55,94	36,12	62,03	3·93
Kurnool-Cuddapa Canal .	2,33,14	3,15	88	7,82	−2 38
				...	
				5,03	−2 16
				12,85	−2·11
				74,88	2·62
				2,87	−4·62
				4	−14·85
				77,79	2·29
Government of Bombay—					
Total Productive	13,75	1,64	22	46	6 91
Mutha Canal including Matoba Tank	66,83	4,10	87	2,29	1·39
Nira Left Bank Canal and Shetphal Tank . ..	1,39,45	6,92	1,92	5,84	−0·60
Godavari Canal	1,00,68	4,21	3,23	3,44	−2·44
Nira Right Bank Canal	4,01,41	2,59	3,45	18,25	−4·76
Pravara River Works	1,45,10	6,07	3,90	5,98	−2·62
Other Projects	1,67,24	4,48	2,97	5,63	−2 46
Total Unproductive	10,20,71	28,37	16,34	41,43	−2·88
Total Government of Bombay	10,34,46	30,01	16,56	41,89	−2·75

TABLE 14.—FINANCIAL RESULTS OF IRRIGATION, 1936-37 (In Rs 000)—(*continued*)

Provinces and Canals	Capital outlay to the end of 1936-37	Total Revenue receipts	Working expenses	Interest on capital	Rate per cent on capital outlay to the end of 1936-37
Government of Bengal—					
Damodar Canal .	1,17,58	4 93	2,74	5,68	−2·97
Bakreswar Irrigation Scheme	7,02	19	14	35	−4 27
Total Productive	1,24,60	5,12	2,88	6,03	−3·04
Midnapur Canal	83,07	1,26	1,27	2,76	−3·34
Total Irrigation	2,07,67	6,38	4,15	8,79	−3 16
Hijili Tidal Canal .	25,51	57	41	85	−2 73
Calcutta and Eastern Canals	69,88	3,75	4,32	2,21	−3 98
Madaripur Bil Route	83,11	1,75	1,67	3,51	−4·13
Dredger 'Ronaldshay'	48,40	1	1,56	2,42	−8 19
Dredger 'Cowley'	45,39	1	92	2,27	−6 99
Other Projects	38,42	96	2,46	1,64	−8·17
Total Government of Bengal	5,18,38	13,43	15,49	21,69	−4·58
Government of United Provinces—					
Ganges Canal ..	4,18,77	73,63	17,62	14,58	9·90
Lower Ganges Canal	3,91,80	46,70	14,79	13,07	4 81
Eastern Jumna Canal	56,92	26,32	5,36	2,05	33 23
Agra Canal	1,15,10	12,38	4,60	3,84	3 43
Sarda Canal	9,60,83	41,71	24,95	45,24	−2 96
Grid Hydro-Electric Scheme ..	3,01,57	20,45	9,21	10,64	0·20
Ramganga Canal .	26,45	1,65	2,35	1,25	−7 39
Tube Wells (State)	99,11	9,47	9,03	2,37	−1 94
Other Projects	19,69	1,19	1,02	56	−1 97
Total Productive .	23,90,24	2,33,50	88,93	93,60	2·13
Dun Canals	26,06	2,09	85	1,10	0 54
Betwa Canal	82,33	5,98	3,01	2,77	0·24
Ken Canal	58,79	3,05	1,65	1,96	−0 96
Dhasan Canal . .	48,47	1,58	1,13	1,63	−2·46
Ghaggar Canal including Garai Canal .	50,27	2,09	1,39	1,84	−2·25
Other Projects .	91,80	2,56	2,13	3,97	−3 86
Total Unproductive	3,57,72	17,35	10,16	13,27	−1·70
Total Govt. of United Provinces	27,47,96	2,50,85	99,09	1,06,87	1·63

TABLE 14.—FINANCIAL RESULTS OF IRRIGATION, 1936-37 (In Rs 000)—(*continued*)

Provinces and Canals	Capital outlay to the end of 1936-37	Total Revenue receipts	Working expenses	Interest on capital	Rate per cent on capital outlay to the end of 1936-37
Government of Punjab—					
Upper Bari Doab Canal ...	2,09,99	60,42	16,44	7,04	17 59
Western Jumna Canal	1,81,01	39,97	15,83	6,17	9 93
Shirhind Canal .	2,51,18	51,64	16,19	8,44	10 75
Lower Chenab Canal ...	4,40,87	1,63,95	33,15	16,04	26 03
Lower Jhelum Canal	1,97,30	49,16	13,15	7,07	14 67
Upper Chenab Canal ...	3,92,32	32,90	11,42	13,03	2 15
Upper Jhelum Canal .	4,41,50	18,96	12,59	14,81	−1 91
Lower Bari Doab Canal	2,28,03	89,29	15,55	7,78	28 93
Sutlej Valley Project ..	8,97,00	82,05	25,66	40,45	1·78
Other Projects . .	33,47	17,06	7,04	1,12	26 58
Total Productive	32,72,67	6,05,40	1,67,02	1,21,94	9·67
Indus Inundation Canals ..	32,63	6,19	7,00	1,13	−5 94
Paunad Headworks	73,15	9	75	3,43	−5·59
Other Projects	25,74	9,09	5,76	93	9 29
Total Unproductive ..	1,31,52	15,37	13,51	5,49	−2 76
Total Government of Punjab ...	34,04,19	6,20,77	1,80,53	1,27,43	9 19
Government of Bihar—					
Son Project—Total Productive.	2,58,99	28,48	9,46	8,61	4 02
Tribeni Canal	79,26	3,01	1,23	2,66	−1 11
Dhaka Canal ...	6,18	31	11	21	−0 13
Total Unproductive	85,43	3,32	1,34	2,87	−1·04
Total Government of Bihar	3,44,42	31,80	10,80	11,48	2·77
Government of Central Provinces—					
Ramtek Reservoir	27,92	34	26	93	−3 04
Tandula Canal	1,20,75	3,37	1,28	4,71	−2·17
Wainganga Canal . .	53,24	1,28	71	2,00	−2·68
Mahanadi Canal	1,59,33	2,49	1,80	6,54	−3·67
Kharung ..	59.28	6	46	2,73	−5·26
Maniari .	58,30	4	49	2,69	−5 39
Other Projects	1,77,91	2,14	1,52	7,15	−3·67
Total Government of Central Provinces ..	6,56,73	9,72	6,52	26,75	−3·59

TABLE 14.—FINANCIAL RESULTS OF IRRIGATION, 1936-37 (In Rs 000)—*(continued)*

Provinces and Canals	Capital outlay to the end of 1936-37	Total Revenue receipts	Working expenses	Interest on capital	Rate per cent on capital outlay to the end of 1936-37
Government of North-West Frontier Province—					
Lower Swat Canal ..	59,91	8,87	1,92	2,21	7 91
Kabul River Canal	14,38	2,82	1,14	53	8 07
Total Productive	74,29	11 69	3,06	2,74	7 94
Paharpur Canal	31,50	57	1,69	1,19	−7·34
Upper Swat Canal	2,06,60	9,63	4,65	7,27	−1 10
Total Unproductive ..	2,38,10	10 20	6,34	8,46	−1·93
Total Government of North-West Frontier Province ...	3,12,39	21,89	9,40	11,20	0·42
Government of Orissa—					
Orissa Project .	2,65,74	6,81	5,44	8,86	−2·82
Rushikulya System ..	51,87	2,23	1,03	1,82	−1·20
Total Unproductive ..	3,17,61	9,04	6,47	10,68	−2·55
Ganjam Gopalpur Canal ...	1,43	..	...	5	−3·32
Total Government of Orissa ...	3,19,04	9,04	6,47	10,73	−2 56
Government of Sind—					
Desert Canal .	26,74	3,74	2,09	89	2·84
Fuleli Canal	55,53	4,28	2,80	2,48	−1·78
Lloyd Barrage and Canals Construction	27,57,59	1,33,48	56,93	1,52,46	−2 75
Other Projects	68,24	17,69	10,19	2,56	7·24
Total Productive	29,08,09	1,59,21	72,01	1,58,40	−2·45
Total Unproductive	27,58	1,26	2,09	1,08	−6 91
Total Government of Sind ...	29,35,67	1,60,47	74,10	1,59,48	−2·49
Total Provincial Governments ...	1,42,39,89	13,12,55	4,60,71	5,95,31	
Total Central Government	1,76,97	4,50	10,22	7,67	...
Grand Total ...	1,44,16,86	13,17,05	4,70,93	6,02,98	..

REVENUE AND EXPENDITURE OF THE PROVINCIAL GOVERNMENTS FROM 1921–22

Sources.—Finance and Revenue Accounts ot the Government of India till the year 1937–38, and Budget Statements of the various Provincial Governments for the other years.

Notes.—1. The revenue figures are gross, except in the case of 'Irrigation' for which net figures are given.

2. The figures of Expenditure under 'Civil Works' include interest on capital outlay on Hydro-electric Schemes, etc., but do not include 'Capital Outlay on Civil Works charged to Revenue'.

3. Agriculture includes Veterinary.

TABLE 15.—**MADRAS**

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
Land Revenue ..	6,07	6,09	5,87	6,15	6,40	6 22	6,24	5,25	5,21	4,89	5,33	5,03	4,51	4,67	4,84	4,66	4,96	4,87	5,00
Excise ..	4,88	4,90	5,19	4,90	4,94	5,11	5,24	5,59	5,92	5,24	4,26	4,27	4,29	4,23	4,08	3,96	4,03	3,68	3,55
Stamps ...	1,90	2,20	2,34	2,42	2,45	2,52	2,50	2,51	2,51	2 35	2,35	2,42	2,28	2,17	2,08	1,95	1,93	1,67	1,67
Forests ..	49	53	54	56	52	56	53	62	64	53	45	50	42	44	45	48	50	45	45
Registration ..	33	36	37	38	39	41	39	34	36	31	31	33	31	32	31	31	33	32	32
Irrigation ..	90	93	1,01	89	95	90	85	85	91	80	91	1,09	1,05	1,18	1,18	1,23	1 85	2,01	2,05
Total .	11,75	12,58	12,99	12,79	14,71	15,18	17,00	17,53	18,09	16,84	16,30	16,40	15,50	15,63	15,88	15,58	16,01	16,23	16,41

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
General Administration...	1,31	1,27	2,13	2,16	2,19	2,25	2,24	2,38	2,44	2,78	2,67	2 57	2,76	2 69	2,71	2,67	2,77	2,79	2,84
Administration of Justice	93	95	92	94	94	93	94	95	96	99	95	89	89	94	95	92	94	91	93
Jails and Convict Settlements ..	29	39	30	29	30	28	30	30	51	24	24	22	21	22	24	23	23	23	23
Police .	1,98	2,02	1,98	1,93	1,83	1,83	1,88	1,92	1,98	1,79	1,69	1 61	1 62	1,63	1,65	1,58	1,61	1,61	1,62
Education ...	1,43	1,53	1,63	1,69	1,86	1,97	2,19	2,61	2,62	2,97	2,41	2,42	2,48	2,52	2,54	2,56	2,58	2,63	2,65
Medical ...	57	54	53	54	56	62	67	82	88	92	86	82	86	87	89	91	95	98	97
Public Health ..	27	10	11	31	32	30	25	26	30	34	25	23	23	22	24	24	44	31	29
Agriculture .	20	20	20	19	22	24	26	29	31	32	28	26	26	28	28	30	33	34	34
Industries ...	20	16	15	17	15	16	19	19	26	22	17	15	15	22	22	22	25	28	27
Co-operation ...	6	6	6	7	7	7	8	9	10	12	13	10	11	11	12	12	13	14	14
Civil Works ...	1,20	1,02	99	77	96	1,10	1,40	1,59	1,82	2,35	1,89	1,58	1,46	1,32	1,29	1,34	1,38	1,52	1,60
Debt Services ..	— 4	3	7	28	40	45	54	59	59	21	17	12	8	6	3	— 1	— 44	— 42	— 37
Direct demands on Revenue .	2.40	2,33	1,42	1,32	1,58	1,58	1,57	1,50	1,54	1,53	1,35	1,25	1,25	1,25	1 28	1,23	1,81	2,09	2 05
Total ..	12,74	12,61	12,63	13,09	13,73	14,17	14,98	16,14	16,85	17,90	16,24	15,65	15,44	15,52	15,83	15,77	15,83	16,21	16,41

[1] Revised estimates. [2] Budget estimates

TABLE 16.—**BOMBAY**[1]

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[2]	1939–40[3]
Land Revenue	5,47	5,59	5,09	5,17	5,41	4,67	5,23	4,85	4,80	4,74	5,01	4,71	3,85	4,57	4,06	3,44	3,20	3,35	3,39
Excise	3,43	4,23	4,35	4,43	4,15	4,09	3,96	3,92	4,08	3,04	3,27	3,51	3,64	3,43	3,65	3,25	3,22	2,98	1,77
Stamps	1,64	1,77	1,80	1,78	1,76	1,68	1,75	1,68	1,77	1,58	1,50	1,59	1,56	1,57	1,61	1,47	1,55	1,43	1,44
Forests ...	75	70	71	73	75	77	73	73	80	52	57	60	54	55	59	48	43	42	42
Registration ...	13	13	13	12	13	12	12	12	12	11	11	13	16	16	18	15	15	14	14
Irrigation	34	52	53	53	42	49	42	49	30	17	43	56	52	−24	54	13	16	18	19
Total	13,11	14,17	14,53	14,99	15,24	14,58	15,34	15,22	15,92	13,81	14,82	15,25	14,61	14,29	15,46	12,40	12,44	12,34	12,90

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[2]	1939–40[3]
General Administration ..	1,18	1,13	97	2,18	2,23	2,21	2,20	2,23	2,24	2,17	2,26	2,05	1,09	1,08	1,13	1,00	1,03	82	81
Administration of Justice ...	70	65	68	71	72	73	73	73	75	75	71	64	67	68	72	61	63	67	66
Jails and Convict Settlements	31	26	25	26	25	25	24	24	24	24	22	25	23	22	22	17	17	17	16
Police	1,90	1,72	1,66	1,68	1,68	1,66	1,65	1,70	1,76	1,92	1,81	1,78	1,76	1,74	1,76	1,40	1,42	1,44	1,44
Education	1,71	1,71	1,92	1,83	1,95	1,99	2,02	1,98	2,06	2,06	1,94	1,74	1,80	1,79	1,80	1,59	1,68	1,91	2,10
Medical	45	44	43	43	47	49	46	53	54	54	51	46	46	46	47	40	44	46	48
Public Health	29	17	19	22	24	19	22	29	29	27	24	24	24	26	24	22	24	31	31
Agriculture	25	19	20	21	22	23	22	24	24	24	23	20	20	20	20	16	17	20	20
Industries	8	3	1	.	1	1	1	1	1	1	1	3	4	4	6	6	8	9	13
Co-operation ...	4	4	4	5	5	5	5	6	6	6	6	5	6	6	7	6	6	7	18
Civil Works	1,87	1,02	97	91	90	1 21	1,47	1,46	1,40	1,54	1,14	93	93	92	98	1,09	1,31	1,25	1,35
Debt Services	85	1,09	1,55	2,02	2,77	2,50	2,25	2,18	2,14	1,89	2,31	2,29	2,30	2,20	2,29	1,62	1,25	1,26	1,24
Direct demands on Revenue ..	2,54	2,50	2,71	1,52	1,67	1,79	1,63	1,62	1,63	1,56	1,58	1,56	1,52	1,46	1,45	1,23	1,58	1,75	1,72
Total ..	15,02	13,53	14,23	14,73	16,16	16,24	15,63	15,56	15,81	15,62	15,29	14,99	14,44	14,49	15,03	11,99	12,14	12,96	12,94

[1] From 1936–37, excluding Sind

[2] Revised estimates

[3] Budget estimates

TABLE 17 —**BENGAL**

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39[1]	1939-40[2]
Land Revenue	3,02	3,13	3,13	3,11	3,01	3,11	3,15	3,27	3 25	3,09	3,06	3,00	3,21	3,44	3,43	3,54	3,53	*3,19	3,94
Excise	1,83	2,01	3,09	2,15	2,28	2,25	2,24	2,25	2,26	1,80	1,56	1,40	1,34	1,37	1,34	1,56	1,55	1,57	1,57
Stamps	2,74	3,02	3,17	3,37	3,58	3,32	3,47	3,55	3,92	3,13	2 71	3 13	2,87	2,86	2,96	3,02	2,87	2,51	2,56
Forests ..	19	23	23	25	29	31	33	31	31	23	17	15	15	18	20	18	22	22	22
Registration	25	25	24	26	39	38	40	40	52	24	19	18	20	22	24	24	23	22	23
Irrigation ...	−2	−3	1	3	.	..	−7	−4	−6	−5	−3	−4	−3	−6	−2	−2	−2	−2	−2
Total	8,32	9,85	10,13	10,34	10,70	10,50	10 81	10,99	11,36	9,66	9 01	9,38	9,06	11,03	11,47	12,14	13,01	12,71	13,78

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39[1]	1939-40[2]
General Administration ..	1,08	1,16	1,15	1,10	1,14	1,16	1,17	1,21	1,24	1,25	1,23	1,17	1,22	1,21	1,29	1,34	1,50	1,60	1,80
Administration of Justice ...	1,03	1,11	1,06	1,06	1,08	1,07	1,08	1,06	1,07	1,06	1,02	94	96	98	97	97	1,02	1,01	1,02
Jails and Convict Settlements ...	38	35	32	32	31	32	34	33	34	44	37	40	43	44	44	42	41	35	35
Police .	1,90	1,84	1,76	1,79	1,78	1,86	1,85	1,96	2,09	2,21	2,21	2,19	2,23	2,25	2 29	2,27	2,24	2,23	2,32
Education ...	1,19	1,21	1,22	1,20	1,31	1,35	1,38	1,40	1,44	1,42	1,34	1,26	1,26	1,28	1,30	1,32	1,37	1,56	1,68
Medical ...	51	53	49	55	56	55	53	55	56	53	52	48	4	48	49	49	53	56	59
Public Health	23	25	24	28	24	33	30	33	35	37	35	37	37	36	36	34	30	42	49
Agriculture ...	15	16	14	14	14	16	16	19	18	18		17	16	16	15	16	17	19	23
Industries ...	11	12	9	9	11	11	11	12	12	12	12	13	12	1	15	14	16	18	21
Co-operation	5	5	5	4	5	5	6	6	7	8	8	7	8	8	9	11	12	13	15
Civil Works ..	1,42	1,01	93	95	1,10	1,11	1,01	97	95	1,01	88	76	76	86	87	93	1,20	1,36	1,59
Debt Services	−8	· 8	−6	−8	−8	−7	−7	−8	−2	...	1	13	10	16	27	28	−7	16	19
Direct demands on Revenue ...	88	83	82	85	1,02	1,05	1,07	1,15	1,11	1,08	99	91	91	93	93	93	97	99	1,04
Total	10,48	9,59	9,78	9,76	10,31	10,71	10,86	10,90	11,34	11,41	11,01	10,68	10,82	11,08	11,51	11,74	11,83	12,93	14,65

[1] Revised estimates

[2] Budget estimates

TABLE 18.—UNITED PROVINCES

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
Land Revenue	6,81	6,80	6,92	6,71	6,90	6,88	6,93	6,04	6,85	6,48	6,12	5,71	5,58	5,86	5,88	5,65	5,87	5,85	6,05
Excise	1,49	1,41	1,31	1,30	1,33	1,31	1,41	1,31	1,30	1,12	1,08	1,22	1,31	1,34	1,41	1,53	1,45	1,36	1,16
Stamps ..	1,51	1,61	1,75	1,74	1,76	1,69	1,71	1,73	1,81	1,70	1,66	1,85	1,75	1,60	1,50	1,63	1,38	1,32	1,44
Forests	86	84	74	69	64	58	66	62	62	50	45	46	45	49	49	44	50	50	50
Registration ..	13	13	12	12	14	13	13	14	14	12	11	13	12	11	10	10	9	9	10
Irrigation	93	86	99	66	85	99	97	85	1,26	1,10	97	1,29	1,21	1,10	1,56	1,52	1,41	1,81	1,63
Total ...	10,02	10,06	10,31	10,00	10,87	11,39	12,86	11,45	12,99	11,97	11,22	11,45	11,24	11,30	11,88	11,92	12,34	13,09	13,27

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
General Administration .	1,36	1,35	1,27	1,29	1,30	1,34	1,35	1,39	1,40	1,41	1,32	1,25	1,28	1,32	1,37	1,43	1,44	1,44	1,50
Administration of Justice .	66	66	67	69	70	75	75	75	78	77	73	67	69	69	70	70	71	70	73
Jails and Convict Settlements	37	39	31	30	35	38	37	39	42	43	29	31	31	31	31	30	31	30	32
Police ..	1,81	1,72	1,59	1,61	1,62	1,64	1,68	1,69	1,71	1,79	1,70	1,58	1,61	1,62	1,62	1,65	1,65	1,67	1,67
Education ...	1,51	1,38	1 59	1,71	1,84	1,87	1,92	1,96	2,00	1,93	1,93	1,83	1,90	1,97	2,02	2,05	2,06	2,11	2,15
Medical .	23	25	24	25	29	33	35	35	36	37	33	31	31	33	32	33	34	35	37
Public Health	29	14	13	16	15	22	25	22	27	23	19	19	19	20	23	22	23	25	24
Agriculture .	25	23	22	22	25	28	31	30	30	29	26	25	25	24	28	31	33	62	86
Industries ..	9	9	10	10	11	12	13	12	14	13	12	11	10	10	12	15	15	20	30
Co-operation .	2	2	2	2	2	2	3	4	5	5	5	4	4	5	5	5	5	6	7
Civil Works ...	1,02	77	74	80	70	68	66	70	50	66	38	44	47	52	62	69	62	63	70
Debt Services	42	33	30	30	33	41	60	62	67	90	77	82	51	46	45	62	60	63	71
Direct demands on Revenue ...	1,65	1,53	1,40	1,31	1,42	1,38	1,40	1,44	1,47	1,49	1,34	1,18	1,20	1,19	1,20	1,31	1,46	1,53	1,01
Total ...	11,49	10,71	10,48	10,42	11,17	11,34	11,75	12,28	12,33	12,88	11,84	11,30	11,27	11,43	11,71	12,29	12,34	13,10	14,01

[1] Revised estimates

[2] Budget estimates

TABLE 19 —**PUNJAB**

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
Land Revenue ..	2,46	3,23	3,64	3,54	3,07	3,21	3,00	2,78	2,58	2,69	2,22	2,68	2,50	2 98	2,78	2,97	2,89	2,70	2,76
Excise .	1,16	1,03	1,04	1,19	1,23	1,24	1,18	1 21	1,15	1,12	94	92	94	1,00	1,00	1,04	1,07	1,04	1,11
Stamps ...	82	89	96	1,17	1,14	1,13	1,18	1,21	1,15	1,10	1 10	1,15	1,08	1,03	92	90	90	85	86
Forests ...	50	34	44	37	41	39	32	34	32	24	22	20	19	19	20	22	24	25	24
Registration ...	6	7	7	9	9	9	9	9	9	8	8	9	9	9	9	9	10	10	10
Irrigation	3,27	3,54	3,87	4,25	4,57	3,80	4,07	3,73	3,91	3,60	3,78	3,06	4,40	4,00	4,26	4,40	4,72	4,63	4,59
Total .	7,10	8,28	9,16	9,78	11,52	10,86	12,06	11,16	11,27	10,56	9,46	10,24	10,73	10,66	10,61	11,27	11,98	11,64	12,02

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921 22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
General Administration	93	97	96	94	98	1,02	1,05	1,09	1,11	1,11	1,03	94	99	99	1,04	1,05	1,12	1,19	1,17
Administration of Justice ..	43	43	51	51	50	50	53	53	56	57	53	49	5[illegible]	50	51	52	54	55	54
Jails and Convict Settlements .	35	39	30	30	32	34	39	41	43	39	32	31	30	29	31	30	31	30	30
Police .	1,10	1,21	1,08	1,09	1,05	1,05	1,09	1,16	1,21	1,28	1,21	1,20	1,19	1,19	1,22	1,24	1,23	1,28	1,27
Education ...	87	98	1,03	1,08	1,40	1,42	1,50	1,60	1,71	1,71	1,60	1,48	1,53	1,55	1,58	1,57	1,60	1,62	1,65
Medical .	31	30	31	29	33	38	42	49	49	48	45	42	42	44	44	45	49	53	55
Public Health .	10	10	11	15	16	22	14	20	25	18	14	12	12	10	10	11	17	22	24
Agriculture ...	27	25	22	23	30	35	39	43	46	41	34	31	34	35	39	43	50	55	59
Industries . .	6	8	7	6	7	6	8	9	14	11	10	10	11	12	17	14	19	20	21
Co-operation	4	4	4	4	7	9	10	11	12	13	12	10	11	11	12	12	14	15	19
Civil Works .	1,22	1,05	83	69	1,08	1,49	2,06	2,14	1,67	1,45	1,16	1,08	1,20	1,22	1,24	1,48	1,28	1,46	1,40
Debt Services	−4	3	6	1	−4	−11	−23	−25	−16	−12	−9	9	−5	−11	−3	−13	−10	−20	−23
Direct demands on Revenue ...	1,00	1,02	76	76	90	88	86	81	84	79	73	66	67	70	72	74	80	87	87
Total	8,81	8,86	8,04	7,95	9,94	11,47	11,87	11,61	11,32	10,99	10,38	10,06	10,09	10 10	10,51	10,84	11,47	11,70	11,96

[1] Revised estimates. [2] Budget estimates

TABLE 20 —CENTRAL PROVINCES

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
Land Revenue ..	2,65	2,55	2,38	2,26	2,21	2,23	2,45	2,19	2,05	2,19	2,11	2,45	2,24	2,35	2,45	2,54	2,31	2,18	2,42
Excise	1,05	1,26	1,31	1,50	1,57	1,35	1,21	1,23	1,25	86	66	58	57	59	60	64	67	65	58
Stamps	50	58	67	68	71	61	65	70	67	59	56	57	58	54	52	50	42	38	44
Forests	41	47	51	52	50	53	51	54	60	51	44	43	44	48	49	48	51	49	49
Registration ...	6	7	7	7	7	6	7	7	7	5	5	5	5	5	5	5	5	6	6
Irrigation	−4	1			1	2		−2	−3	−4	−3	−1		1	3	3	4	2	7
Total	4,72	5,15	5,17	5,25	5,35	5,07	5,40	5,36	5,28	4,70	4,20	4,50	4,30	4,43	4,61	4,71	4,54	4,40	4,85

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921–22	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39[1]	1939–40[2]
General Administration ..	48	48	46	65	65	65	67	67	67	68	65	61	62	63	65	66	71	69	69
Administration of Justice ..	30	31	30	30	31	31	32	32	31	31	28	25	26	25	26	26	27	25	26
Jails and Convict Settlements ..	11	9	10	9	9	10	10	10	10	11	8	8	8	8	9	9	9	8	8
Police	57	56	56	57	56	58	59	60	61	62	59	56	57	58	59	59	61	60	59
Education ...	54	53	49	49	52	61	54	65	57	57	50	47	49	49	51	52	55	56	57
Medical ..	13	14	14	12	13	15	15	17	14	15	13	11	12	13	14	15	16	17	17
Public Health ...	5	4	3	3	5	4	4	6	7	5	4	3	3	4	4	4	4	5	5
Agriculture ..	12	11	12	12	13	14	17	17	16	15	14	12	12	13	13	13	15	15	16
Industries ..	3	6	3	2	3	3	3	3	3	3	2	2	2	2	3	3	3	3	4
Co-operation ..	2	2	2	2	2	2	2	2	2	3	2	2	2	2	2	3	3	3	3
Civil Works	66	63	68	64	76	1,02	1,10	40	82	70	51	51	53	57	62	59	59	56	54
Debt Services	4	4	3	2	2	...	4	4	−1	..	3	16	22	8	8	10	−6	−2	23
Direct demands on Revenue ...	77	86	91	68	84	85	84	84	83	83	69	62	65	65	66	66	68	65	65
Total ...	4,95	4,90	4,94	4,88	5,33	5,74	5,38	5,55	5,42	5,14	4,58	4,49	4 69	4,55	4,77	4,81	4,66	4,75	4,83

[1] Revised estimates

[2] Budget estimates

TABLE 21 —**ASSAM**

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39[1]	1939-40[2]
Land Revenue	96	92	1,03	1,05	1,07	1,07	1,13	1,17	1,21	1,15	1,21	1,18	1,11	1,18	1,25	1,30	1,21	1,14	1,33
Excise	60	54	60	66	74	72	71	66	66	58	52	42	35	32	35	36	36	36	31
Stamps ..	15	18	20	21	22	24	23	22	20	19	19	18	17	17	17	18	18	18	19
Forests .	13	17	20	25	30	32	36	38	35	23	19	16	15	14	15	17	18	17	17
Registration ...	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Irrigation																		...	
Total	1,82	1,84	2,11	2,30	2,50	2,43	2,63	2,74	2,72	2,44	2 40	2,20	2,01	2,17	2,39	2,53	2,74	2,62	2,84

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39[1]	1939-40[2]
General Administration .	27	25	25	24	24	25	25	26	27	27	26	24	25	25	26	28	34	34	34
Administration of Justice ...	7	9	8	9	9	9	9	11	12	12	11	9	9	10	11	10	10	10	10
Jails and Convict Settlements .	5	5	5	4	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Police . .	28	31	18	21	23	24	26	27	28	30	28	26	27	30	30	30	31	31	34
Education .	23	23	23	24	25	27	28	30	33	33	31	30	31	32	34	35	35	35	38
Medical .	9	9	9	9	10	11	11	13	13	13	13	12	12	13	14	14	14	14	15
Public Health	6	5	4	5	9	10	12	8	8	8	7	6	6	7	7	7	8	9	9
Agriculture ...	4	3	3	3	4	4	4	6	7	7	6	6	5	6	7	7	8	8	9
Industries .	1	1	1	1	1	1	2	2	2	2	2	2	2	2	2	2	3	3	3
Co-operation .	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Civil Works . .	42	41	37	19	40	49	58	68	77	58	41	40	39	46	56	61	53	46	52
Debt Services .	...	−1	1	−1	−1	−1	−1	−1	−1	−1	2	5	6	5	16	17	3	3	5
Direct demands on Revenue .	27	30	31	33	48	45	42	51	53	52	44	40	36	35	35	35	36	34	49
Total ..	2,05	2,05	1,90	2,00	2,28	2,43	2,52	2,75	2,98	2,79	2 48	2,36	2,36	2,51	2,81	2,92	2,78	3,00	3,02

[1] Revised estimates

[2] Budget estimates.

TABLE 22.—BIHAR AND ORISSA, TILL 1935-36

REVENUE (In Lakhs of Rupees)

Heads of Revenue	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	1,64	1,65	1,66	1,68	1,67	1,69	1,69	1,74	1,78	1,80	1,76	1,81	1,77	1,83	1,79
Excise ...	1,24	1,54	1,83	1,76	1,97	1,97	1,96	1,89	1,91	1,42	1,22	1,20	1,24	1,39	1,44
Stamps ..	87	95	96	1,00	1,08	1,07	1,10	1,10	1,11	1,08	1,06	1,07	1,06	1,13	1,17
Forests ..	9	9	10	11	10	8	9	11	9	8	6	6	7	8	7
Registration	9	13	14	14	15	15	17	17	17	15	13	13	13	14	15
Irrigation . .	16	16	17	17	23	23	21	20	17	17	20	22	20	24	22
Total ..	4,43	4,94	5,28	5,37	5,79	5,74	5,72	5,78	5,95	5,28	5,19	5,06	4,97	5,46	5,52

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
General Administration	66	69	68	65	65	67	68	70	71	70	66	63	65	68	70
Administration of Justice .	34	34	34	35	37	37	38	40	39	41	38	36	36	37	39
Jails and Convict Settlements ...	14	17	15	17	16	18	19	20	19	25	18	20	18	17	19
Police	80	80	78	79	80	80	81	82	82	85	81	80	81	82	83
Education	53	53	61	67	75	92	85	86	90	90	84	77	81	81	84
Medical	15	15	19	26	26	33	26	26	28	27	26	24	25	25	25
Public Health .	3	5	8	9	12	14	13	14	22	15	9	8	10	10	13
Agriculture	7	7	7	9	8	10	11	10	12	11	10	9	10	10	11
Industries . .	3	5	6	7	8	8	8	10	10	10	7	8	8	8	10
Co-operation ...	2	2	2	2	3	3	3	4	4	4	4	3	3	4	4
Civil Works	60	57	64	67	73	88	84	76	86	80	56	42	38	44	51
Debt Services .	3	2	3	4	3	2	2	1	2	2	2	2	2	3	10
Direct demands on Revenue . .	42	40	44	47	59	59	59	62	61	59	53	47	46	47	47
Total .	4,58	4,63	4,84	5,13	5,55	6,05	5,87	5,85	6,09	6,06	5,43	5,00	5,05	5,26	5,59

TABLE 23 —**BIHAR, ORISSA AND SIND, FROM 1936-37**

REVENUE (In Lakhs of Rupees)

Heads of Revenue	Bihar				Orissa				Sind			
	1936–37	1937–38	1938–39[1]	1939–40[2]	1936–37	1937–38	1938–39[1]	1939–40[2]	1936–37	1937–38	1938–39[1]	1939–40[2]
Land Revenue	1,36	1,37	1,31	1,32	50	48	49	49	34	33	30	31
Excise	1,16	1,22	1,16	1,04	33	34	31	23	33	37	35	35
Stamps ..	97	1,01	1,04	1,05	17	18	18	18	18	18	17	17
Forests .	6	7	8	7	4	4	6	6	7	8	8	7
Registration ...	13	13	12	12	2	2	2	2	2	2	2	2
Irrigation ...	21	19	18	18	3	2	8	8	58	67	66	67
Total	4,58	5,03	5,19	5,38	1,70	1,85	1,91	1,84	3,87	3,92	3,66	3,83

EXPENDITURE (In Lakhs of Rupees)

Heads of Expenditure	Bihar				Orissa				Sind			
	1936–37	1937–38	1938–39[1]	1939–40[2]	1936–37	1937–38	1938–39[1]	1939–40[2]	1936–37	1937–38	1938–39[1]	1939–40[2]
General Administration ..	62	67	72	76	26	28	29	29	23	22	24	25
Administration of Justice ...	35	36	38	37	6	7	7	7	13	13	13	13
Jails and Convict Settlements .	18	19	17	19	3	3	3	3	6	6	6	7
Police .. .	70	79	81	80	22	24	23	25	40	40	41	40
Education .	69	70	71	79	25	26	26	27	30	30	31	31
Medical ...	21	23	24	26	8	8	8	9	8	7	8	8
Public Health ...	10	13	13	14	2	2	2	3	2	2	3	3
Agriculture	15	14	13	15	2	2	3	3	7	9	9	10
Industries ...	9	10	11	11	1	2	3	3	1	1	1	1
Co-operation	4	4	4	5	1	1	2	2	1	1	1	1
Civil Works	43	47	43	47	15	20	26	30	23	21	28	43
Debt Services	6	6	6	6	−1	1	1	1	3	5	1	5
Direct Demands on Revenue .	36	38	39	38	15	16	19	19	26	26	26	28
Total ...	4,76	4,95	5,04	5,38	1,56	1,76	1,93	2,03	3,48	3,55	3,51	3,76

[1] Revised estimates

[2] Budget estimates

TABLE 24.—INCOME AND EXPENDITURE OF DISTRICT AND LOCAL BOARDS

(In Lakhs of Rupees)

Year	Number of Boards	Income				Incidence per Head		Expenditure				
		Provincial Rates	Civil Works	Other Sources	Total	As	Ps	Education	Civil Works	Sanitation Hospital, etc	Debt and Miscellaneous	Total
1911-12	1,124	2,31	1,32	1,86	5,50	3	10	1,17	2,64	51	1,05	5,36
1912-13	1,126	2,39	1,52	2,19	6,10	4	6	1,32	2,84	53	1,09	5,78
1913-14	1,131	3,01	2,08	2,75	7,84	4	0	1,54	3,30	59	1,14	6,57
1914-15	1,134	3,34	1,87	2,55	7,76	5	5	1,74	4,07	65	1,29	7,75
1915-16	1,144	3,39	1,43	2,68	7,50	5	1	1,82	4,16	70	1,32	8,00
1916-17	1,147	3,53	1,25	3,10	7,88	5	3	1,85	3,53	69	1,74	7,81
1917-18	1,202	3,54	1,38	3,33	8,24	5	7	1,96	3,39	72	2,21	8,28
1918-19	1,274	3,56	1,70	4,14	9,40	6	7	2,31	3 60	80	2,17	8,88
1919-20	1,320	3,75	1,72	4,93	10,40	7	10	3,07	3,96	1,00	1,92	9,95
1920-21	1,346	3,62	1,69	4,92	10,23	7	10	3,62	4,42	1,09	1,52	10,65
1921-22	1,340	3,95	1,80	5,19	10,93	7	6	4,09	3,85	1,24	2,16	11,35
1922-23	1,325	4,26	1,68	5,38	11,32	7	8	4,20	3,66	1,28	2,21	11,34
1923-24	1,289	4,42	1,82	5,91	12,14	8	3	4,28	3,81	1,36	2,29	11,74
1924-25	1,279	4,60	1,78	5,93	12,32	8	6	4,46	3,74	1,40	2,53	12,13
1925-26	1,269	4,71	2,30	7,05	14,05	9	6	5,05	4,33	1,72	2,56	13,66
1926-27	1,265	4,90	2,52	7,66	15,09	10	2	5,30	4 95	1,81	3,07	15,13
1927-28	1,256	4,84	2,58	8,15	15,56	10	6	5,72	5,04	1,94	3,26	15,96
1928-29	1,247	4,91	2,57	8,50	15,98	10	9	5,91	4,85	2,00	3,62	16,39
1929-30	1,246	4,94	2,67	8,76	16,37	10	8	6,05	4,47	2,02	3,78	16,32
1930-31	1,246	4,97	2,52	9,08	16,57	10	5	6,27	4,63	2,04	3,94	16,88
1931-32	1,247	4,83	2,05	8,65	15,52	9	7	6,25	3,95	2,00	3,61	15,81
1932-33	1,324	5,12	1,94	8,45	15,51	9	5	5,91	3,69	1,93	3,58	15,11
1933-34	1,317	5,15	2,07	8,71	15,93	7	1	6,03	3,84	1,92	3,88	15,68
1934-35	1,098	5,39	2,07	8,72	16,17	9	8	6,08	4,05	2,01	3,78	15,92
1935-36	1,111	5,33	2,14	8,75	16,22	9	9	6,10	4,28	2,03	3,63	16,04

TABLE 25.—INCOME AND EXPENDITURE OF MUNICIPALITIES

(In Lakhs of Rupees)

Year	Number of Municipalities	Population within Municipal limits (in 100's)	Income			Incidence per Head (excluding Extra-ordinary and Debt.)	Expenditure
			From Rates and Taxes	From other sources (including Extra-ordinary and Debt.)	Total		
						RS. A. P	
1911–12 ..	714	17,130	5,06	7,83	12,89	4 5 7	12,54
1912–13 ...	712	17,085	5,27	12,32	17,59	4 12 0	17,02
1913–14 .	714	17,219	5,47	13,09	18,56	5 1 5	18,48
1914–15	713	17,228	5,44	13,11	18,55	4 15 10	18,70
1915–16 ..	714	17,296	5,80	9,31	15,12	5 0 3	15,45
1916–17 .	722	17,342	6,12	9,45	15,57	5 2 6	15,58
1917–18	725	17,353	6,41	10,42	16,83	5 8 0	16,58
1918–19 ..	731	17,418	6,97	11,23	18,21	6 1 3	17,83
1919–20 ...	739	17,485	7,42	13,58	20,99	6 8 5	20,97
1920–21	749	18,129	8,01	19,50	27,51	6 15 5	27,08
1921–22 .	751	18,794	8,69	19,81	28,50	6 14 5	28,69
1922–23 .	757	18,880	9,70	26,43	36,13	7 6 11	35,75
1923–24 .	772	18,960	10,32	33,85	44,16	7 12 6	43,67
1924–25 ..	763	18,896	11,07	34,92	46,00	8 6 3	45,84
1925–26	767	18,959	11,43	30,33	41,76	8 8 9	41,30
1926–27 ...	771	19,063	11,68	26,14	37,82	8 13 3	37,89
1927–28	774	19,087	11,96	24,25	36,21	8 14 7	36,61
1928–29 .	776	19,101	12,29	20,82	33,11	9 1 5	33,15
1929–30	777	19,113	12,65	25,13	37,78	9 5 9	37 70
1930–31 ...	781	21,230	12,68	23,91	36,60	8 4 6	36,25
1931–32	785	22,433	12,44	23,84	36,28	7 10 9	36,73
1932–33 ..	789	22,794	12,56	26,53	39,10	7 9 3	38,86
1933–34	794	22,794	12,88	23,82	36,70	7 11 7	36,18
1934–35 ..	798	22,876	13,14	24,94	38,08	7 15 3	37,60
1935–36 ...	812	22,818	13,46	27,74	41,21	8 3 7	41,21

TABLE 26 —INCOME AND EXPENDITURE OF DISTRICT AND LOCAL BOARDS IN DIFFERENT PROVINCES IN 1935-36

(In Lakhs of Rupees)

Province	Number of Boards	Income					Expenditure				
		Provincial Rates	Civil Works	Other sources	Total	Incidence per Head	Education	Civil Works	Sanitation, Hospital etc.	Debt and Miscellaneous	Total
						RS A. P					
Madras	478	1,11	1,01	287	4,99	0 14 6	1,27	1,71	38	1,63	4,99
Bombay . ..	245	54	20	161	2,35	1 2 2	1,23	40	14	53	2,30
Bengal ..	110	96	25	61	1,82	0 5 7	31	69	40	35	1,75
United Provinces	48	80	14	102	1,96	0 6 11	1,11	36	47	7	2,01
Punjab	29	68	13	124	2,05	0 15 7	1,12	31	28	32	2,03
Bihar and Orissa .. .	66	79	29	64	1,72	0 7 1	50	59	23	33	1,65
Central Provinces and Berar	108	28	3	43	74	0 7 0	30	7	4	30	71
Assam ...	19	13	8	15	36	0 7 2	14	10	6	5	35
North-West Frontier Province	5	3	2	12	17	0 11 2	10	3	1	4	18
Total (India)	1,111	5,33	2,14	8,75	16,22	0 9 9	6,10	4,28	2,03	3,63	16,04

TABLE 27 —INCOME AND EXPENDITURE OF MUNICIPALITIES IN DIFFERENT PROVINCES IN 1935-36

(In Lakhs of Rupees)

Province	Number of Municipalities	Population within Municipal limits (in 1000's)	Income						Expenditure
			From rates and taxes	From other sources (including Extraordinary and Debt)	Total	Incidence per Head (excluding Extraordinary and Debt)			
						Rs.	as	ps.	
Madras (excluding Madras City) ..	82	3,080	1,00	1,09	2,09	5	5	8	2,06
Madras City	1	647	47	59	1,06	11	3	7	1,04
Bombay (excluding Bombay City)	155	3,288	1,97	2,45	4,42	7	15	5	4,33
Bombay City	1	1,161	2,59	18,01	20,60	27	14	5	20,90
Bengal (excluding Calcutta) .	118	2,334	77	28	1,06	1	15	2	1,08
Calcutta	1	1,158	2,03	1,69	3,72	21	2	0	3,50
United Provinces ...	85	3,417	1,21	69	1 90	5	2	1	1,86
Punjab . .	121	2,308	97	63	1,60	6	9	2	1,57
Burma (excluding Rangoon) ...	58	914	34	42	76	7	7	2	72
Rangoon	1	428	60	83	1,43	20	14	9	1,54
Bihar and Orissa ...	67	1,492	29	22	51	3	0	11	53
Central Provinces and Berar . .	75	1,406	47	31	78	4	11	7	78
Assam	27	217	8	5	13	5	12	6	13
North-West Frontier Province .	7	216	11	6	17	7	12	1	19
Total (India)	812	22,808	13,46	27,74	41,20	8	3	7	41,21

TABLE 28.—AREA, POPULATION AND REVENUE OF THE PRINCIPAL INDIAN STATES

* Average annual revenue. † Average of five years.
‡ Approximate annual revenue

Name of the State	Area (in sq. miles)	Population (1931 Census)	Revenue (1937) Rs. 00,000
Bahawalpur	22,000	1,000,000	85·00
Banganapalli	275	40,000	3·01
Baria	813	159,429	*12·00
Baroda	8,164	2,443,007	280·46
Barwani	1,178	141,110	‡12 00
Bhavnagar	2,961	500,274	*181·77
Bhor	910	141,546	7 08
Bikanir	23,317	936,218	125 00
Cambay	392	87,761	†13 00
Charkhari	880	120,351	8 00
Chhota-Udepur	890	144,640	11·20
Cochin	1,480	1,205,016	101·00
Cooch Behar	1,318	590,866	‡32 00
Datia	912	158,834	‡18 00
Dhar (C I.)	1,800	243,521	*30 00
Dharampur	704	112,031	8 50
Dholpur	1,221	254,986	17·70
Dhrangadhra	1,167	88,961	25·00
Dhrol	282	27,639	*2 45
Dungarpur	1,460	227,500	*8 00
Faridkot	643	164,346	20 00
Gondal	1,024	205,846	50·00
Gwalior	26,397	3,523,070	250 00
Hyderabad	100,465	17,877,986	882·07
Idar	1,669	not given	21·00
Indore	9,902	1,325,000	135·00
Jaisalmer	16,062	not given	5 31
Janjira	379	110,388	11·00
Jaora	601	100,204	12·00
Jawhar	308	57,261	*3·45
Jhalawar	813	107,890	7·48
Jodhpur	36,021	2,125,982	171·57
Junagadh	3,337	545,152	100·00
Kapurthala	652	316,757	40·00

TABLE 28 —AREA, POPULATION AND REVENUE OF THE PRINCIPAL INDIAN STATES—(*continued*)

*Average annual revenue † Average of five years
‡ Approximate annual revenue

Name of the State	Area (in sq miles)	Population (1931 Census)	Revenue (1937) Rs 00,000
Khairpur	6,050	227,168	25 00
Kishangarh	858	85,444	7·50
Kolhapur	3,217	957,137	125 70
Kotah..	5,684	695,804	51 70
Kutch.	8,249	514,307	32 00
Limbdi	343	40,088	9·00
Lunawada	388	95,162	5 50
Maihar	407	68,991	‡5 00
Mandi	1,200	207,465	*12·48
Mayurbhanj	4,243	889,603	33 00
Morvi.	822	113,024	40 00
Mysore	29,474	6,557,302	379 00
Nawanagar	3,791	409,192	90·00
Orchha	2,080	314,661	‡13 00
Palanpur	1,774	264,179	10 62
Partabgarh	—	—	‡5·75
Patiala	5,932	1,625,520	157 00
Patna..	2,511	566,943	10 31
Porbandar	642	115,741	21 00
Radhanpur	1,150	70,530	8·00
Rajkot	283	75,540	12 50
Rajpipla	1,517	206,085	27·00
Rampur	892	464,919	45·17
Ratlam	693	107,321	10 00
Rewa ..	13,000	1,587,445	60 00
Samthar	178	—	3·50
Sangli	1,136	258,442	†15 96
Sirmoor	1,141	148,568	†12 00
Sant ..	394	83,531	4·14
Tonk ...	2,553	317,360	21 76
Travancore	7,625	5,095,973	252 54
Tripura	4,116	382,450	31·17
Udaipur	12,753	1,566,910	80·00

TABLE 29.—**HYDERABAD.**

REVENUE (in Lakhs of Rupees)

Heads of Account	1921-22	1925-26	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38[1]	1938-39[1]
Land Revenue ...	3,03	3,11	3,42	3,02	3,00	3,09	3,05	3,09	3,13	3,36	3,24	3,25	3,13
Excise[2] ...	1,51	1,65	1,79	1,75	1,59	1 69	1,73	1,84	1,90	2,11	2,09	1,99	2,13
Customs ..	1,30	1,35	1,57	1,58	1,04	85	1,03	1,00	92	1,05	1,23	1,05	1,10
Stamps ...	16	18	22	23	18	20	20	21	21	20	21	20	20
Forest ...	10	19	21	22	17	13	14	15	14	14	13	14	14
Registration ..	2	2	4	4	3	3	3	3	3	3	3	3	3
Commercial Services[3]	2	32	49	46	35	50	42	50	1,14	1,08	1,30	1,24	1,24
Bear Rent .	29	29	29	29	29	29	29	29	29	29	29	29	29
Mint, Paper Currency and Exchange.	8	9	19	17	21	18	22	19	21	22	24	23	23
Total ..	7,11	7,78	8,92	8,52	7,62	7,72	8,06	7,95	8,53	9,06	9,43	9,14	9,29

[1] Budget estimates [2] Liquor, Matches, Opium and Ganja. [3] Chiefly Railways.

EXPENDITURE (in Lakhs of Rupees)

Heads of Account	1921-22	1925-26	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38[1]	1938-39[1]
Palace ..	50	50	54	53	59	77	62	59	61	72	74	61	62
Direct Demands on Revenue ...	1,19	1,25	1,44	1,34	1,41	1,47	1 44	1,44	1,44	1,45	1,67	1,53	1,54
Civil Administration ..	1,48	1,31	1,40	1,53	1,60	1,63	1,58	1,65	1,60	1,56	1,75	1,65	1,62
Education ...	65	63	72	76	87	91	98	1,16	1,07	1,04	1,05	99	99
Other Development Services ...	65	40	64	99	88	94	98	83	76	66	67	90	71
Public Works ...	60	57	1,10	97	84	93	69	69	67	68	75	1,27	88
Military ...	62	61	65	67	73	76	86	82	79	80	81	85	85
Religions ..	10	10	13	12	13	13	12	13	13	13	13	14	14
Famine Relief and Insurance ...	7	34	20	21	20	19	19	18	25	27	26	29	33
Total ...	6,69	6,60	7,64	8,02	8,30	8,74	8,51	8,38	8,36	8,38	8,99	9,64	9,85

[1] Budget estimates.

TABLE 30.—MYSORE

REVENUE (in Lakhs of Rupees)

Head of Account	1921–22	1925–26	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37
Land Revenue ...	116	124	126	111	130	127	118	112	128	121
Income Tax	16	21	12	12	14	13	20	28	34	35
Excise	76	65	70	66	55	55	53	51	49	48
Stamps	16	20	21	19	20	20	18	20	19	20
Forests	22	40	42	31	24	24	23	24	26	25
Registration	3	3	4	3	3	3	3	3	3	3
M ning Revenue .	16	12	12	11	12	15	16	27	27	26
Profits from Capital Outlay...	31	43	53	49	47	48	50	49	52	60
Total ...	312	346	375	332	337	338	343	368	386	379

EXPENDITURE (in Lakhs of Rupees)

Head of Account	1921–22	1925–26	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37
Palace	24	26	26	26	24	25	25	25	26	26
Direct Demands on Revenue.	48	48	55	54	46	46	46	46	47	47
Civil Admin.stration ...	80	75	90	89	84	85	86	88	92	92
Education	42	45	54	53	48	48	49	47	49	52
Public Works	31	29	36	35	26	35	31	33	24	21
Army	63	51	43	42	40	38	38	39	40	39
Total ...	327	346	375	394	356	356	365	368	383	376

TABLE 31.—**JAMMU AND KASHMIR**

REVENUE (in Lakhs of Rupees)

Heads of Account	1921	1925	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39
Land Revenue ..	40	51	54	52	54	60	58	61	63	63	64	65	63
Income Tax ...	...	.	...	...	.	...	..	...	...	1	2	3	3
Excise	4	4	4	4	4	4	4	4	3	4	3	4	3
Customs	24	38	50	47	63	62	65	63	63	73	75	71	62
Stamps ..	5	5	5	5	6	6	6	7	6	7	7	6	6
Forest	42	61	78	79	75	69	38	38	30	43	43	50	47
Grazing Fee ...	5	7	8	7	8	8	6	5	5	5	5	6	5
Sericulture ..	45	22	30	27	16	9	15	10	10	20	15	14	12
Interest ...	3	4	4	5	6	8	6	4	4	3	4	4	4
Total	186	215	259	251	259	249	219	218	222	243	245	251	243

EXPENDITURE (in Lakhs of Rupees)

Heads of Account	1921	1925	1928–29	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39
Maharajah and Court	17	17	21	24	25	25	22	22	24	24	27	30	30
Direct Demands on Revenue	29	39	40	36	35	36	31	27	28	25	26	26	27
Civil Administration	19	23	24	25	26	27	28	27	26	31	31	33	33
Education .	8	11	12	13	15	17	17	16	16	16	17	18	19
Medical ...	5	7	8	8	9	10	9	8	8	8	8	8	9
Public Works ...	31	49	45	47	70	59	41	37	33	29	29	29	41
Military {	29	36	41	41	41	41	41	42	43	42	45	47	49
	..	..	. .	..	25	25	22	22	24	24	27	30	30
Interest		..	...	...	.	...	...	...	...	1	2	2	2
Total ..	174	221	243	245	283	275	247	235	227	231	239	258	267

TABLE 32 —**BARODA**

REVENUE (in Lakhs of Rupees)

Heads of Account	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32
Land Revenue	114	107	118	113	117	118	94	119	117	121
Income-tax	4	4	5	6	6	7	7	7	5	7
Excise ..	35	37	41	41	35	41	43	39	26	30
Stamps	12	12	12	11	11	12	11	12	12	12
Railway Receipts (Net) ...	13	18	18	19	8	13	15	15	13	14
Total	221	219	245	237	247	286	249	264	260	249

EXPENDITURE (in Lakhs of Rupees)

Heads of Account	1922–23	1923–24	1924–25	1925–26	1926–27	1927–28	1928–29	1929–30	1930–31	1931–32
Palace .	20	20	20	20	20	22	25	27	26	25
Direct Demands on Revenue.	30	27	26	27	28	29	31	31	30	28
Civil Departments (excluding Education)	36	33	34	35	37	36	36	37	37	37
Education ...	29	29	30	31	32	33	34	34	35	35
Public Works .	22	25	35	31	29	35	26	43	36	58
Army ..	26	24	24	25	22	27	22	27	23	24
Total ...	211	189	194	198	204	215	211	243	239	262

TABLE 33—TRAVANCORE

REVENUE (in Lakhs of Rupees)

Heads of Account	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Land Revenue	42	42	42	42	40	39	38	34	37	30	36
Income Tax	5	5	6	7	7	6	5	4	4	5	5
Excise	64	69	75	81	80	66	70	72	71	73	68
Customs .	29	30	32	33	35	35	28	44	41	39	41
Stamps	27	27	29	28	27	23	24	23	23	23	21
Forests	14	15	15	16	17	14	13	12	13	13	13
Registration	8	9	10	9	9	6	6	6	5	5	5
Commercial Services (net) ...	2	4	3	2	2	2	1	2	1	1	1
Total ...	217	233	242	251	247	227	219	235	234	227	232

EXPENDITURE (in Lakhs of Rupees)

Heads of Account	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36
Palace	13	15	13	14	14	15	15	17	20	15	15
Direct Demands on Revenue ...	27	28	29	31	31	31	29	28	29	28	27
Civil Administration ...	22	22	23	23	24	25	24	25	26	26	26
Education	37	40	42	42	42	49	45	46	47	47	47
Other Development Services ..	12	13	14	14	15	16	15	15	16	15	17
Public Works	31	30	38	43	44	39	29	32	37	35	30
Army	13	14	14	14	14	14	14	14	14	14	15
Debt Services	5	5	5	6	6	6	7	10	7	7	8
Devaswoms (Temples)	4	4	4	4	8	4	3	3	6	6	10
Total ...	199	205	218	228	240	239	219	228	240	231	236

TABLE 34.—INDORE

REVENUE (in Lakhs of Rupees)

Heads of Account	1921–22	1925–26	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37
Land Revenue	54	62	60	55	50	57	59	58	62	65
Excise ..	9	15	13	15	9	14	12	11	11	11
Customs	20	17	17	13	12	13	16	14	17	18
Stamps	5	6	8	7	6	7	7	6	7	7
Forest	6	9	8	7	6	5	5	5	5	5
Interest . .	8	8	8	8	9	8	7	6	7	6
Other Items .	7	14	14	15	14	13	13	14	13	14
Total .	109	131	128	120	106	117	119	114	122	126

EXPENDITURE (in Lakhs of Rupees)

Heads of Account	1921–22	1925–26	1929–30	1930–31	1931–32	1932–33	1933–34	1934–35	1935–36	1936–37
Palace . .	16	23	31	29	24	20	21	22	23	26
Direct Demands on Revenue	15	15	20	19	18	17	17	17	17	18
Civil Administration .	12	14	18	18	16	16	15	15	15	16
Education .	4	5	9	9	8	8	8	8	8	9
Other Development Services	2	2	3	3	3	3	4	4	4	5
Public Works	10	12	25	23	34	23	12	12	11	9
Army	15	16	14	14	11	9	9	10	10	10
Religious endowments ...	3	3	3	2	2	3	2	2	2	2
Extraordinary and Special Departments... ...	7	18	1	1	1	1	...	.	...	.
Other Items	7	13	55	13	22	11	13	14	18	17
Total ...	91	121	179	131	139	111	101	104	108	112

TABLE 35.—COCHIN

REVENUE (in Lakhs of Rupees)

Head of Account	1921-22	1925-26	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39
Land Revenue ...	12	12	13	12	12	12	10	11	11	12	12	12
Income Tax ...	..	...		...	...		2	3	3	4	7	6
Excise	17	18	24	19	19	20	19	22	22	23	21	26
Customs ...	6	9	16	..	17	33	20	19	20	19	13	24
Stamps ...	6	7	6	6	7	7	6	6	6	6	6	6
Forests ..	4	5	6	3	3	3	3	4	4	4	5	5
Reg stration . .	1	1	1	1	1	1	1	1	1	1	1	1
Profits from capital outlay ...	2	4	14	13	14	17	15	1	7	6	9	6
Total ...	55	72	94	70	89	106	90	97	99	101	99	105

Expend.ture (in Lakhs of Rupees)

Head of Account	1921-22	1925-26	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39
Palace	5	5	5	5	5	5	5	6	7	7	7	7
Direct demands on Revenue ...	6	8	9	8	8	7	8	8	10	10	11	11
Civil Admin stration .	6	6	8	10	10	9	10	10	11	11	10	10
Education . ..	9	12	13	14	15	15	16	17	18	18	19	19
Other development Services .	5	5	7	7	8	8	8	9	10	9	9	10
Public Works .	6	11	18	16	14	15	16	13	13	14	13	11
Army	1	1	1	1	1	1	1	1	1	1	1	1
Debt Services	.	..	. .		.	1	2	4	4	4	5	5
Total .	55	65	83	81	83	82	94	97	100	102	100	102

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1873	XII	1, 9, 19 ...	Proceedings of the Same Committee, Vol III
1874	VIII	1	Proceedings of the Same Committee, Vol IV (Index)
1872		209	Report on the Administration of Income-tax
1873	(Calcutta)		Report on Taxation in British India, 1872
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1885		352 ...	Correspondence on Steps for the Reduction of Expenditure, 1883.

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1885	17 Sess	2	Return on Transfer of Government to Simla
,,			East India (Reduction of Expenditure) 'Copy of Correspondence between the Government of India and the Secretary of State in 1883 Regarding the Steps to be Taken for a Reduction of the Expenditure of India'
1886			Report of the Finance Committee (Elliot), 1886
,,		180 ..	Income-tax Bill (1886)—Proceedings
1887		332	Correspondence Regarding the Increase of Army in India
,,			Report of the Finance Commissioner with the Government of India
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1892	LVIII	275	Correspondence Relating to Opium Consumption
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,,	LX	583	Report of the Royal Commission on Opium
,,	,,	221	Historical Appendices to the Same
,,		20	Military Expenditure of the Government of India in India and in England (1875-92)
,,		143	Tariff Bill (1875), Discussions Correspondence and Proceedings
1895		202	Representations against the Exclusion of Cotton Manufactures from Import Duties by Chambers of Commerce and Other Public Bodies in India
1896		8078	Papers Regarding Tariff Act and Cotton Duties, 1896
,,	,,	8131	Correspondence Regarding the Incidence of the Cost of India Troops Employed out of India
,,			Royal Commission on Indian Expenditure Evidence, Vol I Appendices, Vol II
1898		152 .	Measures Taken in Connexion with Opium Smoking in India
1899	LXVI, Part I	561 .	Correspondence on Countervailing Duties on Bounty-fed Articles (Sugar, etc)
1900		130	Royal Commission on Indian Expenditure Evidence, Vol III
		131	Report Vol IV
,,		357	Correspondence on the Report of the Expenditure Commission
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,,	IV	.	Final Report of the Royal Commission on the Administration of the Expenditure of India
1901		1747 .	Report of the Committee on the Establishment of Co-operative Credit Societies in India
		13	Wars on or Beyond the Borders of India, 1849-98
1902		1089	Papers Regarding the Land Revenue System
1907		3327 .	Report of the Indian Excise Committee, 1905-6
1908		4360	Report of the Royal Commission on Decentralization
,,		4361	Evidence Taken in Madras, Vol II
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,,		4369	Evidence of the Officers of the Government of India, Vol. X.
1909			Correspondence Regarding Opium Question in China.

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1918			Report on Indian Constitutional Reforms (Montagu Chelmsford Report)
,,			Report from the Committee of Public Accounts together with the Proceedings of the Committee, Minutes of Evidence and Appendix
1919			First, Second and Third Reports from the Committee of Public Accounts together with the Proceedings of the Committee, Minutes of Evidence and Appendix
			Report of the Financial Relations Committee Appointed in G O No 1193-M, d/30 8-1920
1920			Third Report from the Committee of Public Accounts together with the Proceedings of the Committee Minutes of Evidence and Appendix 1920
,,			Fourth Report from the Committee of Public Accounts together with the Proceedings of the Committee Minutes of Evidence and Appendix
1923			Report of the Indian Fiscal Commission (1921-2) and Minutes of Evidence 3 vols
1926			Report of the Taxation Enquiry Committee (1924 5)
1931			Proceedings of the Round Table Conferences
1932			Report of the Federal Finance Committee (Lord Eustace Percy)
,,			Report of the Peel Sub-Committee
,,			Report of the Indian States (Financial) Committee (J C C Davidson)
1936			Indian Financial Enquiry Report (Sir Otto Niemeyer)
1937			Explanatory Memorandum on the Draft Orders and Views of the Provincial Governments and the Secretary of State for India on the Report of the Financial Enquiry made by Sir Otto Niemeyer

(b) CURRENCY

1860			Speech on the Paper Currency for India by the Rt Hon'ble James Wilson, Legislative Council, Calcutta, dated 3 March 1860
			Report of the Commission to Enquire into the Operation of Act XIX of 1861 being an Act 'To Provide for a Government Paper Currency' 2 vols
1866 and 1867	(Calcutta)		Papers Relating to the Introduction of Gold Currency into India
1868			Remarks on a Gold Currency for India by Col Ballard
1876			Report from the Select Committee on Depreciation of Silver, together with the Proceedings of the Committee, Minutes of Evidence, Appendix
1888			Gold and Silver Commission
,,			Proceedings of the Bimetallic Conference held at Manchester—4 and 5 April 1888
1893			Papers Relating to Changes in the Indian Currency System (Reprinted from the Gazette of India and Supplement, dated 26 June 1893)
,,		449 ...	Government of India Letter, 13-10-1876, Regarding the Depreciation in the Value of Silver.
,,			Indian Currency Committee (Herschell), 1893.
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1893		7060-I	Correspondence between the Government of India and the Secretary of State
,,		7060-II	Minutes of Evidence and Appendices.
,,		7098	Further Papers—Correspondence and Proceedings of the Government of India.
1898			Indian Currency Committee (Fowler), 1898
..		9037 ..	Minutes of Evidence, Part I
...		9222 .	Minutes of Evidence, Part II
		9376	Appendices
...		9390	Report
1898		125	Despatch of 1806 of the Court of Directors on the Coinage of India
1913			Royal Commission on Indian Finance and Currency (Chamberlain), 1913
		7068	Interim Report.
		7069 .	Evidence, Vol I
		7070 ...	Appendices to the Interim Report, Vol I
		7071	Appendices to the Interim Report, Vol II
		7236 .	Final Report
		7237	Evidence, Vol II
...		7238	Appendices to the Final Report
1920			Committee on Indian Exchange and Currency (Babington Smith)
..		527 .	Vol I, Report.
		528	Vol II, Minutes of Evidence
		529 .	Vol III Appendices
1926		2687	Royal Commission on Indian Currency and Finance (Hilton Young)
			Vol I, Report
			Vol II, Appendices
			Vol III, Appendices
			Vol IV, Minutes of Evidence Taken in India
			Vol V Minutes of Evidence Taken in London

(c) PUBLIC WORKS

1861			East India (Irrigation Works, etc.)—Irrigation Works—Execution by Joint Stock Companies—Copies of Despatch of the Governor-General of India to the Secretary of State—Reply thereto, etc.—with Reports of Local Governments and Officers on the Subject
1865–66			Correspondence Regarding Provision of Funds and Financial Measures to be Adopted in India for Public Works
1866			East India Communications Select Committee's Report
1870		379 . .	Irrigation Reports, and Correspondence Regarding Debt Policy
1878–79			Report of the Select Committee on Public Works in India
1917			Report of the Reorganization Committee on Public Works Department, 1917—Minutes of Evidence and Appendices—3 vols (Government Publication)
			Selections from the Government of Madras (Public Works).

Irrigation

1861	XLIII	305 ...	Despatch from India on the Execution of Irrigation Works by Joint Stock Companies.
1866	LIII	375 ...	Despatch from India on Irrigation.

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1867	L	475, 551	Despatch on Irrigation Works Since Transfer of India to the Crown
1867–68	L	693 ...	Despatch on the Purchase of Orissa Irrigation Works
1870	LIII	3	Correspondence on the Prosecution of Irrigation Works from Capital raised by Loan, with Report by Col Strachey
1872	XLIV	291 ...	Financial Despatches from the Secretary of State on Expenditure on Irrigation Works
1889			Papers Relating to Water Supply Schemes in India—Parts I-III
1901–3			Indian Irrigation Commission, 1901-3 Vol I Report, Part I, General Vol II Report, Part II, Provincial Vol III Maps Vol IV Appendix
1903	...		Indian Irrigation Commission—Summary of Recommendations—Parts I and II, Simla, 1903
1905	.		The Irrigation Conference, Simla, 1904 Vol I Papers Vol II Discussions } Calcutta, 1905 Vol III Plates, 1906

(*d*) RAILWAYS

1846			Report of the Commissioners on the Practicability of Establishing Railway Communication throughout India
1852–53	LXXVI	481 ..	Correspondence on Railway Undertakings in India
1854			Memorandum by Major Kennedy on the question of the General System of Railways for India.
,,			Extension of Railway Undertakings in India—Despatches between the Court of Directors and the Governor-General and Governments of Madras and Bombay
1854–55	XL	353	Correspondence on the Progress of Railway Undertakings
1857–58	XIV	161	Report on the Cause of Delay in the Construction of Railways
1858			Report of the Select Committee of the House of Commons on East India Railways
1868–69	XLVII	1 ...	Correspondence on the Further Extension of Railways
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1871	LI	245 ...	Correspondence on the Most Suitable Gauge for Narrow Gauge Railways
1873	L	905 ..	Correspondence Regarding the Present Gauge of 5 ft 6 in
1876–80			Statements on the Lengths Open, the Average Age and the General Results of Working of all Indian Railways
1884			Report of the Select Committee on East India Railway Communications
1885		113	Correspondence on the Report of the Select Committee of 1884 on Railways.
1897	LXV	235 .	Extension of Railways by Private Agency (return).
1901			Robertson Report on Railways.
1902			Notes on the Construction of Railways in India (for Students).

Year	*Volume*	*Number*	*Title*
1903			Report by Thomas Robertson on Administration and Working of Indian Railways
1908			Report of the Committee on the Finance and Administration of Indian Railways' (Mackay)
1920-21			Report of the Railway Committee appointed by the Secretary of State to Enquire into Administration of Working of Indian Railways (Acworth Committee) and Minutes of Evidence, 4 vols
1924			History of Indian Railways Constructed and in Progress--Corrected upto 31 March 1923

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