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## **ECONOMIC OUTLOOK IN FEDERAL INDIA**

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# ECONOMIC OUTLOOK IN FEDERAL INDIA

Lectures delivered as Sir Kikabhai Premchand  
Reader, 1933, to the University of Delhi.

BY

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## PREFACE.

THE University of Delhi invited me to deliver a course of ten lectures as Sir Kikabhai Premchand Reader for the year 1933. The subject of the lectures was "The Economic Consequences of the proposals of the Round Table Conference". The lectures were delivered in Delhi during February and March, 1933. The proposals of the Round Table Conference were revised and embodied by H.M.'s Government in the White Paper which was published in March, 1933, when this series of lectures was about to close. As the proposals of the White Paper were based on those of the Round Table Conference with some exceptions, it was thought desirable not to change the original form of the lectures. References have, however, been made to the White Paper, either in the text or in the foot-notes, wherever it was considered necessary to do so.

The revision of the lectures for the press was delayed because I left for London soon after the series was over. I had, however, the advantage of following at close quarters the discussions on the White Paper during the sessions of the Joint Select Committee of the Parliament. After carefully weighing the opinions of leading persons in Britain who are known to hold opposite views, I found no reason to make any substantial change in the views expressed by me in the lectures as delivered in Delhi. I feel that from the economic point of view the position of the supporters of the White Paper and of its opponents in Britain is essentially the same; the difference is in the matter of the approach by which their common outlook should be maintained. Whereas the advocates of the White Paper scheme want to safeguard British economic interests in India by constitutional devices, which practically reduce the Federation to a costly luxury, the opponents of the

White Paper are more frank and outwardly more aggressive in their demand for safeguarding British interests, though they do not mind speaking in the name of the masses of India.

As explained in the last lecture this series cannot obviously give a forecast of the economic consequences of the proposed constitutional changes in any exact or measurable form; the only thing that could be done is to indicate the broad tendencies or forces that are likely to arise out of the political changes, and hence the title of the book "Economic Outlook in Federal India".

I am indebted to Mr. D. R. Samant, M.A., for help in the collection of material for the lectures, and to Mr. A. G. Sheth, B.A., for help in seeing the book through the press.

SCHOOL OF ECONOMICS AND SOCIOLOGY,

UNIVERSITY OF BOMBAY,

1st December, 1933,

C. N. VAKIL.

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# ECONOMIC OUTLOOK IN FEDERAL INDIA.

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## I. THE STATE AND ECONOMIC LIFE.

The activities of the state in modern times have a great bearing on the economic life of its people. The state is no longer an organisation merely for the preservation of law and order and to defend against external aggression, but has become increasingly an organisation to push forward collectively the material progress of the people both absolutely and relatively; that is, in comparison with the people of other countries. In order to realise the significance of the extent to which the state in modern times dominates economic life, let us take illustrations pertaining to our country. Whether we realise it or not, the fact remains that we pay to the state every day in the form of consumption of articles of daily necessities, such as, salt and sugar. Leaving aside the somewhat more costly articles like imported cloth, we have to remember that we pay to the state even while we consume electric light in some parts of the country. The large masses of the agricultural population feel the existence of the state the most at the time of the payment of land revenue. Some poor compensation for this contribution that they receive from the beneficent activities of the Departments of Agriculture, Co-operation and Irrigation, are also a matter of state activity. So far as the larger industries are concerned, we find by experience that it is impossible to advance without state assistance, which takes the form of a policy of protection. Industries like those of steel and cotton, matches and paper, and in recent times sugar, would not flourish otherwise. We all handle the rupee; we have faith in the rupee because of the Government stamp on it; but in another sense most of us have also been losing faith in it because of the fluctuations in its value, for which, rightly or wrongly, the state comes in for a good deal of blame. The greatest instrument of modern civilization, namely, the railways, are state property in this country. This property is under the control of the Railway Board, and the Railway Budget is a huge affair involving crores of rupees and affecting a large number of employees as well as the economic life of the country in general. It is in the power of the railways by a change for the better or worse in its rates to help or hinder the progress of trade and industry. Examples

like these could be multiplied, but it is enough to see how in almost every walk of life, the domination of the state is supreme.

The last vestiges of *laissez faire* have disappeared with the abandonment of Free Trade by England. In spite of the professed hatred in modern countries of the Soviet regime, people have begun to take a leaf out of the Soviet book, by realising that the economic life of a country should be organised on a pre-conceived plan and should not be let alone. The formation of Economic Councils and the increasing activities of the state in economic spheres in the western world recently, indicate this tendency. Because of the nature of Government in this country, the supremacy of the state over the economic life of the people is already great. Besides, the influence of tendencies in the west is bound to be felt, and we have already proposals for the formation of Economic Councils to help in the ordered planning of economic life in the country. The interference of the state in economic activities therefore is becoming a natural consequence, and such interference is considered desirable if it is planned to advance national interest. The future evolution seems to be in the direction of the systematic planning of economic life in each different state according to its potentialities and means, in place of the old policy of *laissez faire* and free trade.<sup>1</sup> The ideal seems to be the maximum production within the country in the interest of its own nationals.

In order to trace in detail the many ways in which the activity of the state touches economic life, it may be of interest to classify the functions of the state on an economic basis. For this purpose, if we take the functions of the Government in India irrespective of the fact whether they are central or provincial, and divide these functions into those which are likely to help productive activities directly or indirectly, and those which may be classed as non-productive, we shall have a picture which will enable us to see in proper perspective, the manner in which the state is likely to affect economic life. With the help of this classification, if we further look upon each such function from the point of view whether it is provincial or central, and whether the popular will is likely to be reflected in its management more or less, we shall have a further criterion of the extent to which such a function will result in economic welfare of the people as understood by themselves.

In analysing the economic activities of the state in this manner, we must bear in mind certain well-known facts of

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(1) Cf. "The Framework of an Ordered Society" by Sir Arthur Salter.

Indian life. Without going into elaborate statistics we can say that India has a large population with a low standard of life, millions of people being on the margin of subsistence. The assessments of the wealth and income of the people of India made by officials and non-officials vary in detail, but there is a general agreement regarding this conclusion about which even a casual observer finds no difficulty. The real problem therefore in this country is to devise ways and means by which the production can increase, and at the same time the total production available to the nationals of the country may also increase. It is no use having a larger production from the point of view of millions of people in this country who are on the margin of subsistence, if this larger production is not available to them, in however small a degree, for raising their own standard of life. The desire to have such an increase in national production has manifested itself in a variety of ways.

If we realise fully the immense opportunities that the state can have in giving a right impetus to economic life on the one hand, and if we remain conscious of the low economic status in which the people of the country have fallen, then the conclusion is obvious that the test of the utility and even the success of the new constitution in the economic sphere must be the extent to which it affords opportunities to the people of the country to raise their economic status, or in other words, to increase the production in the country in such a manner that the total available for themselves may be larger than now.

The vested interests of the British in this country in trade and industry are viewed from two opposite points of view, because of the manner in which the British businessman in this country has lived. He is looked upon as a foreigner, who has merely an interest in exploiting the resources of the country to the best of his capacity and in taking away the profits out of the country, and also the accumulated experience regarding industrial technique and management. The fact that the existence of some British concerns in this country lead to the larger employment of Indian labour, and to the expenditure by Britishers temporarily settled in the country, is a poor consolation as against the large advantage in the form of profits, accumulated experience and organised control that the British businessman has come to possess. Besides, it is felt that all these valuable privileges would not have been possible but for the sympathy and encouragement and even concessions granted by the Government in India in one form or another. The subtle ways of Government patronage and

the unrecorded methods of social approach between the average English businessman and the average English officer have their own significance in this connection. Whereas this situation is described by some as exploitation by the British of Indian resources in their own interests, it has been described by others as British partnership in the economic development of India.

The former point of view finds expression in the Swadeshi and Boycott movements, which may be described as the outward manifestations of an economic revolt against the existing order of things. The latter point of view has dominated the proceedings of the Round Table Conference resulting in certain safeguards and the special responsibility of the Viceroy and the Governors to protect certain interests. The new constitutional structure is, as we shall see later, an attempt at a compromise to reconcile divergent economic interests, and the economic pillars are so arranged that the structure may fall if anything goes wrong with any one of them.

In spite of such a close inter-relation between Economics and Politics, we are often told in this country that Economics should be kept separate from Politics, or that economic questions should not be influenced by political factors. An explanation of this attitude can be found in the fact that a similar idea is in vogue in England where, however, it has a different meaning. The use of the same idea in this country with entirely different conditions, happens to be convenient to those who advocate it. When people say in England that particular economic questions or economic institutions should be above politics, what they mean is that they should be above party considerations. Political life in England is divided into different political parties, the Conservative, Labour, Liberal and so on. There are, however, questions of national importance in which every one is interested, and though these parties may be bitter opponents, they have learnt by tradition to consider certain problems and institutions as national and therefore above party considerations. The Bank of England is an economic institution, and its daily working is above politics in the sense that the different political parties will not interfere in its normal working. The relations of England with India are a national concern, and therefore whatever the party in power, arrangements will be made by which the parties will do their work jointly in connection with Indian questions, and as already suggested the Indian question to the average Englishman is more economic than political. On the other hand, when this idea of treating economic questions apart from politics

is preached in this country, it takes an entirely different colour because politics and political life in this country may be described to mean a long drawn out struggle between the subject population and the ruling race, in which the aim of the former is to achieve self-government as early as possible, and the aim of the latter is to postpone the inevitable day as far as possible. At bottom the struggle is economic, because the subject population desires that the whole of the national dividend and its future increase may be available for the people of the soil, and because on the other hand, the ruling race wants to see that the economic interests which it has already created in this country shall be maintained and perpetuated by political devices. Each party naturally looks at economic problems from its own point of view. The theory that economic questions shall be above politics, as applied to this country, therefore means the subordination of or the forgetting of the fact of India's political status. When the educated Indian is asked to do this unnatural process in his mind in considering economic questions, he is asked to be unscientific because he is told to forget a major fact. The omission or even the subordination of any important fact in the solution of any scientific problem must bring a wrong conclusion and the process must be described as unscientific. The average Englishman on the other hand can afford to accept this theory, because the omission of the fact of India's political status from the consideration of Indian economic questions, is a situation entirely in his favour; in fact, by doing so, he is able to pocket the strongest argument or assume it in his favour, and probably delights in the inevitable weakness of the case thus presented by his opponent, whom he easily condemns as politically minded if he dares to remember the fact of this political status.

In brief, the use of this theory in this country amounts to this, that the stronger party to the struggle eats half the cake first, and then offers to share the other half, making at the same time the other party believe that it is the whole. And when sometimes the weaker party for fear of losing even the crumbs gets into the belief, it is patted on the back by being given the dignified title of being scientific. Whereas the use of this theory in England and other countries means that certain questions shall be above party politics and therefore looked upon as national, in India it results in the adoption of an anti-national point of view for those questions which eminently require a national outlook.

Just as I do not want to forget the political facts in an economic issue, I also do not want to be excited over it. Scientific

attitude requires a rigid exercise of the mental faculties; it is a process which by its very nature is cool and steady and remains unperturbed by passing waves; this means that just as it is unscientific and therefore wrong to forget the political facts pertaining to an economic issue, it is equally wrong to exaggerate such facts by sentiment or prejudice.

Having cleared the ground by these general observations, let me indicate in brief the scope of this series of lectures. The proposed constitution is now popularly known as a federal constitution, in which there will be certain constituent units on the one hand and a central federal government on the other. The constituent units will consist of the British Provinces and the Indian States, and the Government of India will be transformed into a Federal Central Government. There will be some peculiarities due to historical and existing causes, inasmuch as the position of the Provinces and the Indian States will not be the same in relation to the Federation. Whereas we shall have to take due note of these peculiarities, it is obvious that the Government of the country will be represented either by the constituent units or by the Central Government as the case may be in the day to day life of the people. The nature of these units and of the Central Government and their mutual relations are therefore obviously important. In order to be able to trace the possible economic consequences of the proposals of the Round Table Conference, it is necessary that we should try to visualise the shape that these proposals are likely to take in the form of a working constitution in the immediate future. Having understood the working outline of the future constitution, we shall be in a position to understand the economic forces that will have their effect through the constitution on the life of the people. The next three lectures will therefore be devoted to the study of the constitutional structure with due reference to their economic significance. As the inter-relation of the different parts of the new constitution is expressed in one important respect in the proposed financial arrangements between the constituent units and the central government, and as financial resources must be considered the chief instrument in the hands of the government in connection with its economic policy, we shall consider in brief these resources in Lecture V. With the help of these facts, and in the light of the economic test which we have laid down, we shall then try to trace the economic effects of the new constitution. For this we shall consider the productive activities in the country in two broad divisions, those in rural areas and those in urban areas.

The object will be to ascertain how far the new constitution will enable the people to raise their standard of life. From the point of view of larger production, transport plays an increasingly important part; we shall consider therefore the position of transport from this point of view, that is, as an auxiliary to production. The productive activities within the country on the one hand, and the external economic relations of the country on the other will be closely bound up with the financial machinery in the country, which we shall consider in Lecture IX. In the concluding lecture, an attempt will be made to focus attention on the probable economic effects that may be expected out of the new constitution.



## II. THE PROVINCES.

The new constitution will involve a certain amount of progress in the direction of democratic government, the measure of progress being comparatively larger in the Provincial units than at the Centre. The Provincial units will, in some cases, be split up, for example, Sind will be separated from Bombay, and Orissa will be a separate Province. Whereas the separation of these units will not break up the existing Indian Empire, but is supposed to give a greater cohesion to the people inhabiting these areas, so that they can play their legitimate part in the Empire as a whole, the proposed separation of Burma is of a different nature. If separated, Burma will, in future, be a separate entity like Ceylon; it will have a separate constitution and will be under the control of the British Government. The same applies to Aden. As against this separation, we shall have a Federal arrangement at the Centre, in which the Indian States shall participate along with the Provincial units. This means that for certain common purposes, Geographical India and Political India may be about the same, which has not hitherto been the case.

### SIND.

The separation of Sind and Orissa from the existing administrative units will involve delicate questions of financial adjustments, both with reference to the existing Provincial administrations and with reference to Federal Finance. The separation of Sind has involved several inquiries and long discussions. Sind is a deficit province; at present the revenues drawn from other parts of the Bombay Presidency are used to support the administration of Sind. At one stage it was understood that the separation would be brought about only if Sind could be financially solvent. When it was realised that this was impossible, efforts were made to pass on some charges due to the Lloyd Barrage to Bombay, and some to the Central Government. The iniquity of asking Bombay to pay for the separation of Sind has been given up; Sind will now be an All-India burden. The latest estimate is that in spite of economies, and new taxation, Sind would be in deficit by about 75 lakhs a year, and the proposal is that the Central Government should give a subvention to Sind, till the deficit is extinguished, say in fifteen years.

## ORISSA.

The case of Orissa for separation from Bihar has involved less trouble. But in this case also the cost of separation will have to be borne by some one else. It has been estimated that Orissa will start with an initial deficit of 28½ lakhs rising ultimately to 35 lakhs. It is not possible to meet the deficit by increased taxation of the people of Orissa, and the conclusion is that there should be a corresponding subvention from the Central Treasury.

## BURMA.

The separation of Burma has created an acute controversy. Certain interests desire separation, which was almost a foregone conclusion at one stage. Others desire to join the Indian Federation with the right to secede in future. The problem will have to be solved as early as possible. We may consider in brief the general economic effects of separation. Unlike Sind and Orissa, the separation of Burma will cause fundamental economic changes. The large interests of Indian businessmen now settled in Burma may be affected for the better or worse according to the nature of the Burmese Government of the future. The outlet which Indian business enterprise and capital now finds in Burma will therefore be affected accordingly. Besides these important general consequences, there will be others affecting the finances of the Central Government. The revenues of India will be reduced by about five crores, because of the loss of Customs duties now realised through Burma. As against this there may be some relief which will depend on delicate negotiations, and which will in any case leave a large net loss. If the public debt of India is divided between India and Burma, there may be a saving in interest charges. It has been suggested that Rs. 61 crores of this debt should be regarded as Burma's share. The other question is whether Burma should pay towards the cost of the Indian army, which is regarded as a reserve for the defence and internal peace of Burma. Again, if Burma is separated, the question will arise whether there should be free trade between India and Burma, as now, or whether each should be free to tax the products of the other. The necessity for a trade agreement between the two may arise, which will have to take account of existing facts and future possibilities.

## FUNCTIONS.

Regarding the functions of the Provincial units, and their relations with the Federal Centre, there have been differences

of opinion, and final decisions have not yet been taken. Certain subjects have been defined as "federal for policy and legislation". In some cases, where the States may not like to part with all their powers, uniformity will be achieved by "negotiation and agreement". The preparation of lists of subjects which shall be exclusively provincial or exclusively federal has caused difficulties; this partly depends on the settlement of the question as to whether "residual powers" are to be assigned to the Provinces or to the Centre. Again, there are subjects in which "concurrent" powers may have to be assigned to both, in which case provision to avoid conflicts will be necessary. Pending the solution of these problems, we may say that for practical purposes, the list of provincial subjects will be as under<sup>1</sup>—

1. Local Self-Government.
2. Public Health, Sanitation and Vital Statistics.
3. Education.
4. Public Works.
5. Water Supply, irrigation and canals, drainage embankments, water storage and water power.
6. Agriculture.
7. Civil veterinary departments.
8. Forests.
9. Administration of Justice.
10. Stamps.
11. Registration of deeds and documents.
12. Industrial matters; as regards
  - (a) Factories.
  - (b) Settlement of labour disputes.
  - (c) Welfare of labour.
  - (d) Electricity.
  - (e) Boilers.
13. Prison and Prisoners.
14. Control of Services.

#### GOVERNOR'S POWERS.

The Ministers will have a constitutional right to tender advice, and the Governor will, except to the extent and in the circumstances explained below, be guided by that advice.

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(1) For a more detailed list of subjects classed "Exclusively Provincial", see White Paper, App. VI, List 2.

(a) The enactment of provision in the constitution that the Governor has a "special responsibility", not for spheres of administration, but for certain clearly indicated general purposes, and that for securing these purposes he is to exercise the powers conferred upon him by the Act in accordance with directions contained in his Instrument of Instructions; and

(b) The insertion in the Instrument of Instructions *inter alia* of a direction to the effect that the Governor is to be guided by his Ministers' advice unless so to be guided would, in his judgment, be inconsistent with a "special responsibility" imposed upon him by the Act, in which case he is to act notwithstanding his Ministers' advice, in such manner as he judges requisite for the due fulfilment of his special responsibility.

"It will be apparent from this conclusion that the Instrument of Instructions will assume a position of great importance as an auxiliary to the Constitution Act."

Some of the special responsibilities of the Governor will be—

- (1) the prevention of grave menace to the peace or tranquillity of India or of any part thereof;
- (2) the protection of minorities;
- (3) the preservation of the rights of the public services.

Besides these the Governor will also possess the following powers:—

- (a) The power to dissolve, prorogue and summon the Legislature;
- (b) The power to assent to or withhold assent from Acts;
- (c) The grant of previous sanction to the introduction of certain classes of Legislative measures;
- (d) The power to take action, notwithstanding an adverse vote in the Legislature;
- (e) The power to arrest the course of discussion of measures in the Legislature;
- (f) The power to make rules of legislative business in so far as these are required to provide for the due exercise of his own powers and responsibilities.

Wherever the Governor's special responsibilities are involved, he will be empowered not only, as is mentioned above, to act without, or, as the case may be, contrary to the advice of his Ministers, but also to counteract an adverse vote of the Legis-

lature, whether such a vote relates to the passage of legislation or to the appropriation of funds. Ministers will be constitutionally entitled to tender advice and unless that advice is felt to be in conflict with one of his special responsibilities he will be guided by it. If in the fulfilment of his special responsibility, the Governor decides that a legislative measure or supply to which the legislature will not assent is essential, his special power will enable him to secure the enactment of the measure or the provision of the supply in question.

One of the special responsibilities of the Governor will be the execution of orders passed by the Governor-General, and consequently the Governor will act otherwise than on his Ministers' advice, if such advice conflicts with the Governor-General's instructions.

Under this constitution the Governor will have power to legislate by Ordinance.

#### MINISTERS.

Subject to the powers of the Governor, the Ministers will have freedom to carry out their policy, for which they will be responsible to the Legislature. In practice, this responsibility may not be effective. The Governor may select a Chief Minister and ask him to nominate his colleagues. This will be possible only if a clearly defined party has a majority in the Legislature. If this is not the case, the Governor will bring together several leaders of small groups, whose combined following may form a working majority, but who may not have a common policy. The desire of minorities to see that they are represented effectively not only in the Legislature but also in the Executive will result in such loosely formed cabinets. If the Governor interprets his special responsibility for the protection of minorities in this way, the result will be the same. Besides, it is not clear that the Cabinet will have a joint responsibility; probably this is left to be developed as a convention. The absence of a clear definition of joint responsibility however will give an impetus to disintegrating forces; and the formation of Cabinets pledged to well defined principles or policies will not be possible. These remarks will be better understood if we keep the composition of the Legislature in view. In this connection, we shall first consider the question of the franchise.

#### FRANCHISE.

Without adhering to any accepted principle of franchise the Lothian Committee adopted the criterion of expanding the

electorate in this country to what they considered to be a practical size. This happens therefore to be the upper limit so far as the numbers of the electorate are concerned. With this end in view, different principles or methods have been applied to different groups or sections of the people, in order that each of them may get an approximately proportionate share in the future electorate. In some cases in addition to a wider franchise, certain groups are given reserved seats so that their interests may be better safeguarded. The franchise for the Provincial Councils and the Federal Assembly is not the same, that for the latter being much narrower. Though the general framework for the Provincial Councils is the same, there are differences in detail due to local factors.

A combination of property qualification and an educational test pervades the scheme by which the right to vote is to be given for the Provincial Councils. Whereas the property qualification applicable to different groups is the same, the educational test varies with reference to this or that group. In other words, a higher or lower educational test is used as an elastic method to make up for the proportionate share of the different groups in the electorate on the one hand and for the total practicable size of the electorate on the other.

The property qualification for rural and urban areas is different. Confining our attention to the Bombay Presidency we find that the existing land revenue qualification of Rs. 32 per year has been reduced to Rs. 8 per year. In towns and cities property qualification will be based on house rent; this will be half of the present requirement, that is, instead of Rs. 120 per year in Bombay, it will be Rs. 60. In other towns this figure is smaller. All income-tax assesses will be qualified to vote. Besides, a few people who have a record of military service will also be included in the electorate. This number will be small in most provinces; it will be large in the Punjab. The educational test for the right to vote for provincial councils is that of the upper primary standard, which means education for four or five years at a primary school. This test has been lowered in the case of the depressed classes and women, and it has been provided that those who fulfil the literacy test in these two groups will be qualified to vote. The literacy test would amount to merely the capacity to read and write a letter in one's own language. It is expected that this arrangement would give a substantial addition of voters to these two groups. In the case of the depressed classes, the idea has been that their voting strength should be about 10 per cent. of their population. Village

servants who are usually drawn from these classes will also be added to this electorate to make up their percentage. In the case of women, the idea is to bring about an electorate in which their share shall be at least 20 per cent. of the men voters. Besides the qualifications referred to above, it has been laid down that wives of those who have a property qualification now in vogue for Provincial Councils shall become voters.

It is obvious that some of these tests are overlapping; each voter will, of course, have the right to have a vote only under one of these qualifications. It is expected that whereas the existing percentage of voters to population is a little more than four, the proposed arrangement will raise the figure to 13.

Special representation by way of reserved seats is to be given to certain interests in the Provincial Councils. Industrial Labour, Minor minorities, Landholders, Commerce and Industry, Universities and Women are the parties that will receive special representation in the Provincial Councils. Without going into the details of the special seats available to other interests, we may here mention the fact that in the Provinces, 2 to 5 per cent. of the seats will be reserved for women in the first ten years; the exact percentage varies according to the terms of the Communal Award for each Province, which, for example, gives seven seats to women out of two hundred in the Bombay Council. It is obvious that in addition to the reserved seats, it would be possible for women candidates to obtain other seats in the Legislatures. Whereas the only woman member of the Lothian Committee, Mrs. Subbarayan definitely recommended that the women candidates should represent all women irrespective of communities, the Communal Award has introduced the communal element into the reserved seats available to women in the Provinces. This means that the reserved seats for women will be distributed among the separate electorates meant for Mahomedans and non-Mahomedans. The balance attempted to be created between the voting strength of the different communities has been a greater consideration than the desire of women voters to be above communal bias.

These recommendations are however not final, because they have not been accepted *in toto* at the third Round Table Conference. Regarding the educational test for men, further inquiries are to be made. Besides, there was a desire to have the same educational test for women as for men. The suggestion that wives and widows over 21 of men qualified by property to vote for the existing councils, has been widely resented. One of

the solutions that has been suggested is to leave the method of enfranchising women to the Provinces, after laying down that the ratio of men to women voters should be  $4\frac{1}{2}$  to 1.

In considering the composition of the Legislature, we have further to take note of the Communal Award. According to this, certain seats are assigned to certain communities, the remaining seats being described as general. For example, we have seats for Mahomedans, Depressed Classes, Europeans, Indian Christians, Anglo-Indians and so on. Similarly, there is a reservation of seats for Commerce and Industry, Labour, Landholders, Backward areas, and the Universities. The distribution of seats for these special interests has the communal balance in view; the same applies to the reserved seats for women. As we all know, the Communal Award has been modified so far as the depressed classes are concerned. Their separate seats will be amalgamated with the general seats; but according to the Poona Pact, there will be certain primary elections, and out of the panels so elected, the general constituency will vote for a certain number. The arrangement has given valuable privileges to the Depressed Classes, while preventing the disruption of Hindu Society by a political classification.

#### ECONOMIC INTERESTS IN PROVINCIAL COUNCILS.

The constitution of the new legislatures both in the Provinces and at the Centre, is so arranged that it is difficult to forecast the extent to which different economic interests will be represented in the same. In spite of this, it is possible to trace broad tendencies which will be reflected in the legislatures in any case. Taking the Provincial Councils for the present, and basing our remarks on the possible constitution of the Bombay Legislative Council, we find that one-third of the voters will be drawn from rural areas, their qualification being payment of land revenue. If we add to this rural interest, the number of people connected with the land, as from the depressed classes, and from among the women voters, and also those due to the educational test, if applied, it would not be difficult to say that more than half the voting strength will represent landed interest. The second large block of voters will be composed of those who live in cities and pay a certain specified house rent. From the amount of the rent which has been laid down as a qualifying test for a vote, it is obvious that the majority of this class will be those who can be described as constituting the lower middle class in towns. The income-tax assesses will include the few rich, but there will also be a certain



number in this category who will be overlapping with those living in towns and qualified to vote because of house rent. The number of women voters in towns is likely to be proportionately larger than in the village areas, because the educational qualification is likely to be fulfilled more easily in towns, where women as a rule will like to take a greater advantage of the vote. But these groups have comparatively little cohesion from the point of view of their economic interest, and we may safely conclude therefore that the predominant element will be of those members who are elected by agricultural interests. This fact is recognised in the Communal Award which, while trying to distribute the seats according to communities, also provides for reservation of seats for Commerce and Industry and for Labour. In Bombay for example, it has been provided that Commerce and Industry will get 7 seats, and the same number will be allotted to Labour. Out of the 7 seats available for Commerce and Industry, 4 will go to Europeans and 3 to Indians. Apart from the representation of economic interests, as pointed out above, there are bound to be groups of members according to communities which they represent. These groups will present a large variety because of differences in local conditions in different provinces. So long as the communal interest is uppermost in the minds of each such small group, it will be difficult to form parties on broad principles, either political or economic. This means that the formation of economic policy must suffer unless in due course it is realised that economic interests are of greater importance than communal interests. The difficulty created by the introduction of the communal principle in the constitution of the legislatures is thus obvious.

### III. THE INDIAN STATES.

The Indian States as constituent members of the Indian Federation along with the Provinces present a most interesting problem both in political theory and practice. Whereas the Provinces will have some form of democratic government, the States will continue to be under autocratic rulers. Whereas in the Federal Legislature, the subjects of the Provinces will be represented directly or indirectly, the subjects of the States will have no place in the new constitution, as the Princes will send their own nominees to the Federal Legislature. We shall consider in some detail later, the significance of this new arrangement. In this lecture, we shall confine ourselves to an understanding of the position of the States in relation to the Paramount Power at present, and in future when the new constitution comes into being. In doing so, we shall refer mainly to the economic aspects of the problem, which will incidentally enable us to realise how certain subjects or departments of an All-India nature, which must of necessity be treated as federal in future, are already federal in practice, in as much as they are under the control of the Government of India, the States having little or no voice in their management.

#### INTERNAL GOVERNMENT.

The internal administration of the States presents a large variety. Legislative Councils of a consultative nature have been formed in about 30 States. High Courts on the British model exist in about 40. The separation of executive and judicial functions has been brought about in 34. The degree of administrative efficiency reached in the different States varies widely. The making of laws for internal purposes, the levy of taxes and the general administration is in the hands of the States.

A British Resident or Agent represents the Crown in each State. He tenders advice to the ruler, and reports to the British Authorities. Some of the States pay tribute to the Crown, the amount varies according to treaties which brought them into existence. The tributes are credited to the revenues of India.

The Crown controls the external relations of the States. For this purpose therefore, the subjects of Indian States and their territory are on the same footing as those of British India.

The major States maintain troops known as Indian State Forces at their own cost. This is encouraged by the Government of India, as these troops are supposed to co-operate with the Indian Army for the maintenance of the internal peace and external defence.

#### THE PARAMOUNT POWER.

The intervention of the Paramount Power in the internal affairs of a state may take place for the benefit of the Prince, of the state, or of India as a whole.

“The conduct of the Prince may force the Paramount Power to intervene both for the benefit of the state and the benefit of the successors to the Prince. It is bound to intervene in the case of gross misrule; and its intervention may take the form of the deposition of the Prince, the curtailment of his authority or the appointment of an officer to exercise political superintendence or supervision. In all these cases a commission must, under a recent resolution of the Government of India, be offered to inquire and report before any action is taken.”<sup>1</sup>

Most of the rights exercised by the Paramount Power for the benefit of India as a whole refer to financial and economic matters. “It is in respect of these financial and economic matters that the dividing line between state sovereignty and the authority of the Paramount Power runs; and apart from interference justifiable on international grounds or necessary for national defence, it is only on the ground that its interference with state sovereignty is for the economic good of India as a whole that the Paramount Power is justified in interposing its authority.”<sup>2</sup>

The theory of the Paramount Power is well defined in the following extract from a letter by Lord Reading to H.E.H. the Nizam in 1926:—“The Sovereignty of the British Crown is supreme in India, and therefore no Ruler of an Indian state can justifiably claim to negotiate with the British Government on an equal footing. Its supremacy is not based only upon treaties and engagements, but exists independently of them, and quite apart from its prerogative in matters relating to foreign powers and policies, it is the right and duty of the British Government, while scrupulously respecting all treaties and engagements with the Indian states, to preserve peace and good order throughout India.”

In practice, we find that within their internal sphere, the rulers are irresponsible to their subjects and intervention by the

(1) Butler Committee Report, pp. 29-30.

(2) *Ibid.*, p. 30.

Paramount Power is confined to extreme cases of misgovernment. But there are certain subjects in which the Government of India have found it necessary to acquire control. These are subjects in which uniform policy and administration throughout the country is both desirable and convenient. Among these may be mentioned Posts and Telegraphs; Coinage and Currency; Customs duties; Excise duties; Salt duties and administration; Railways and so on.

We shall not go into the details of the way in which this was brought about, but shall rest content with emphasising the fact that the administration of these subjects has been largely in the hands of the Government of India, even when they refer to the territory of Indian States.<sup>1</sup>

#### THE STATES AND THE FEDERATION.

Under the Federal Constitution, the States will acquire a new privilege, of having an effective voice in the management of these All-India activities, which they did not have till recently even with reference to their own territories. In spite of this important development, the States have shown considerable hesitation in accepting the responsibilities of running the Federal Government of India, in the form of adequate financial contribution. Whereas the Federal Government will be able to impose direct taxation on the subjects of the Provinces, it will not be free to do so with reference to those of the States.

In order to understand fully the significance of the anomalous situation described above, we should point out that certain legal or constitutional fictions have come into existence to cover the paradox. It has been assumed that the States had sovereign powers with reference to the All-India subjects mentioned above, that in order that the Federal Government of India may be in a position to exercise powers over these and other federal subjects relating to the territory of the States, the Sovereign authority in each case, that is, the Prince of each State should formally transfer this power to the Federation. But the Prince is subject to the authority of the Paramount Power, and therefore he cannot transfer his power directly; he should do so through the Crown. Accordingly, a document known as the Instrument of Accession will be drawn up by each State separately, by which

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(1) Cf. "It will be apparent from the above that the States are closely identified with numerous branches of all-India activity and that this process had already gone far even before the emergence of the Federal ideal. To a great extent indeed Railways, Currency and Coinage, Posts and Telegraphs and Salt are already federal subjects." Davidson Committee Report, pp. 13-14.

the State would agree to transfer certain powers to His Majesty the King for exercise by the Federal Government.

This arrangement on the one hand is meant to show that the States have voluntarily entered the Federation; on the other to reaffirm the sovereignty of the States and the Paramountcy of the Crown over them, at the time when the Federal Constitution conceived in a democratic spirit comes into being. The Paramount Power over the States will be exercised by the Governor-General in his capacity as Viceroy, independently of the Federal Executive. Under the circumstances, to what extent the States will be really independent in the exercise of their voting power in the Federal Legislature, it is difficult to predict. Either the nominees of the States in the Federal Legislature shall be reduced to what is now known as the "official bloc"; or the Paramount Power shall be reduced to a shadow.

At the Round Table Conference and elsewhere great solicitude has been shown by the British authorities to persuade the States to join the Federation. In fact, the acceptance of the Federal ideal by the States' representatives has paved the way for the acceptance of some form of responsible government at the Centre. This has been so, because the States are expected to form a powerful conservative balance to the left wing Indian politician. The States in their turn have seized the opportunity to ask for concessions or immunities from financial burdens. The ease with which the States have been accommodated in the proposals hitherto made is remarkable. This shows how important economic and financial consequences follow from political considerations.

The actual financial position of the States with reference to the Federation will be discussed in a future lecture; we shall prepare the ground by referring to two important points which have raised controversies, and on which certain solutions have been arrived at. These refer to Salt and Customs revenue.

We shall not go into the early history of these questions, but shall state the position as it is at present and consider the way in which they are going to be treated under the Federation. In order to be precise in our remarks, we shall quote the relevant passages from official sources.

#### SALT.

"The Salt monopoly which the Government of India has created together with the established system of collecting the excise duty at the sources of production, ensures that the whole

population of India, whether resident in British India or in the States (with the exception of Kathiawar and Cutch and certain areas supplied from Mandvi) pays the salt tax at the rate from time to time in force in British India. It is true that to some extent this tax enures for the benefit of the Darbars, and not of the Government of India, but in the main, the population of the States contributes to salt revenues on the same basis as British India.<sup>1</sup>

*Conditions in Kathiawar.*<sup>2</sup>—"The Kathiawar states, while left free to continue the manufacture of salt, were subjected without compensation to very definite restrictions in regard to the quantity of output and the sale of the salt so manufactured. The sale of the Kathiawar salt was and is unrestricted within Kathiawar, and carries no duty payable to the Government of India, but a preventive line is maintained on the inland boundary of the peninsula, across which no Kathiawar salt is permitted to pass into the markets of India".

"All the inland states of Kathiawar purchase their salt from the maritime states and such excise duty as is charged upon this salt goes, not to the Government of India, but to the maritime states. The effect of the present arrangement is that the inland states cannot claim any credit in respect of a contribution to central salt revenue in as much as they pay nothing and must, therefore, be debited with the value of a complete immunity".

"The maritime states are in the enjoyment not only of complete immunity for themselves, but are also enabled to impose such salt taxation as they choose upon their non-producing neighbours."

The Davidson Committee pass the following remarks on the Kathiawar arrangement<sup>3</sup>:—"We are of opinion that restrictions upon trading activities imposed under Paramountcy without compensation cannot be maintained under Federation. We hold as general principle that under Federal India, states owning valuable salt sources should be treated not as possessing potentialities of danger and injury to salt revenues, but as units capable of making a helpful contribution to the efficient and economical supply of salt to India as a whole."

"We therefore suggest that all restrictions whatsoever on the marketing of salt manufactured in Kathiawar be withdrawn".

(1) Davidson Committee Report, para. 218, p. 76.

(2) *Ibid.*, pp. 78-79.

(3) *Ibid.*, pp. 79-80.

“We are of opinion that, in return for freedom to trade, the states concerned should voluntarily submit to the collection by Federal officers, at the source of manufacture, of the All-India excise duty.”

*Cutch*<sup>1</sup>.—“The conditions existing in the state of Cutch are very similar to those existing in Kathiawar, with the difference that the market for Cutch salt is limited to Cutch itself under a paramountcy agreement.”

The total annual value of the immunities<sup>2</sup> in respect of salt enjoyed by Indian states (including Kathiawar and Cutch) amount to Rs. 46 lakhs according to the present rate of Rs. 1-9-0 per maund.<sup>3</sup>

#### SEA CUSTOMS.

The Simon Commission while discussing the economic unity of India observe, “the fact that the majority of the states are land locked, places them in a position of reliance on British India for their communication with the rest of India and the outside world, while the existence of ports in other states had already caused complications. . . . The point is well illustrated by the effect on the states of the adoption, at the wish of the Assembly, of an extended protective tariff. This body, legislating professedly only for British India, has in effect imposed indirect taxation on the inhabitants of the states. The states themselves have their own tariff policies, and there is a serious possibility that, unless provision can be made for the reconciliation of divergent interests, numbers of tariff walls will be perpetuated in an area where fiscal unity is most desirable<sup>4</sup>.”

The Davidson Committee summarises the attitude of the maritime states in the following words<sup>5</sup>:—“They argue that they possess by virtue of their sovereignty the right of levying and retaining sea customs duties at their own ports; that while they have agreed in the interest of India as a whole to levy such duties at rates not lower than those charged at entry into British Indian

(1) Davidson Committee Report, para. 218, p. 81.

(2) The term “immunity” is taken to mean “the extent of the exemption enjoyed by a State (though not necessarily its inhabitants), through the operation of its treaties or commercial agreements from the contribution to the Central revenues which is made, through the incidence of the tax, by the provisions of British India and by other States”. (*Ibid.*, pp. 76-77.)

(3) *Ibid.*, Appendix V.

(4) Report, Vol. II, p. 11, para. 17.

(5) Report, pp. 84-85.

ports, the existing scale of duties has been determined by British India without reference to them; that the revenue they derive from these customs duties is substantially elastic, and an important part of their total revenues from which their state expenditure has to be met; that the appointment of the staff by which they collect and the manner in which they disburse the revenue so realised from customs duties are entirely matters for their own decision; and, in particular, that they cannot be debarred from utilizing that revenue in the maintenance and development of the ports at which the customs duties are levied."

"On behalf of British India it may be said that it is an essential part of a federal scheme that there shall be a uniform system of customs duties—uniform in the scales of charge on each commodity, in the method of collection and in subordination to the Federal authority,—and that it would make for efficiency if not necessarily for economy, if all customs staff were concentrated under one administration; and that, if the revenue realised from such a uniform system of customs duties is to be allotted wholly to federal needs, it is reasonable that against the value of the duties levied at their ports and hitherto retained by the states there should be set off the value of the general benefit which would accrue to the states from Federation including the right to a voice in the determination of Federal policy."

"British India also not unreasonably complains that trade is diverted from its own ports, with consequent loss of revenue to ports developed and maintained by states by means of subsidies from their general revenues, which are being constantly increased by the customs duties arising from the trade which those subsidies have attracted. These subsidies may take the form of provision of capital without interest or sinking fund charges, abnormally low port charges, especially for warehousing, the financing of traders on exceptionally favourable terms, and preferential adjustment of state railway rates."

"The port trusts of all the major ports of British India are, on the other hand, administered on a self-supporting basis; that is to say, their income is derived from port dues and charges which they are required to adjust so as to cover all proper expenditure, including interest and sinking fund charges. They have no right to draw upon the general revenues of the provinces in which they are situated or on those of the Government of India for the purpose of meeting any deficiency and neither they nor the provinces have any claim upon any part of the customs duties levied at their ports."



*Maritime States of Kathiawar.*—A line of customs stations was imposed from the Gulf of Cambay to the Raun of Cutch along the British Indian frontier of the Kathiawar states. This cordon is known as the Viramgam line.

The Bhavnagar State enjoys a special privilege in so far as all goods imported *via* all Bhavnagar ports are allowed to pass duty free into British India.

The total value of foreign trade passing through Kathiawar States ports in 1930-31 was about Rs. 1,020 lakhs.

The whole customs revenue of the Kathiawar ports (including Bhavnagar) for 1930-31 was Rs. 246.53 lakhs. Of this total Rs. 122.65 lakhs were recovered for central revenues at the Viramgam line and Rs. 123.88 lakhs remained in possession of the States.

The Davidson Committee<sup>1</sup> pass the following remarks as regards the present customs arrangement in Kathiawar:—"But if the Viramgam line is finally abolished, the incentive to a tariff war for the trade of Kathiawar between the port-owning states will be very strong and they will be at full liberty to engage upon it. The representatives of one state informed us of their intention to attract import trade by cutting their tariff as soon as the restrictions imposed by the Agreement of 1917 could be regarded as null and void, and it only requires one state to initiate such policy for all to follow suit. Already there are sufficient complications in Kathiawar arising from the divided ownership of the railways which, within prescribed limits, enables some maritime states to offer better terms to import trade than others."

As regards the reference to the Agreement of 1917 above it must be remembered that the imposition of Viramgam line nullified this Agreement.

Kathiawar does not however consist only of the maritime states but includes also many inland states. As the Viramgam line is along the British Indian frontier, the ports of Kathiawar have full and free access to the non-maritime states as well as to their own territory. The duties ultimately borne by the population of the non-maritime states thus pass into and are retained in the coffers of the maritime states. Such states thus to the extent to which they draw their overseas imports from the nearest ports possess a full immunity. As regards retention of the Viramgam line the Davidson Committee observe, "we desire to

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(1) Report, p. 117.

emphasise our dislike equally of the retention of the Viramgam line as now established and of its erection elsewhere under any other name."

*Maritime States all over India.*—The total value of the foreign trade conducted by Indian states' ports in 1930-31 was Rs. 1,550 lakhs. This comes to 4·28 per cent. of the total foreign trade of British India. The customs collections at Indian states' ports in 1930-31 amounted to Rs. 280·78 lakhs, of which Rs. 122·65 lakhs was recovered for British India at the Viramgam line, leaving Rs. 153·13 lakhs in possession of the states. "The sum retained by the states does not represent the total extent of the immunity from contribution in respect of sea customs enjoyed by the states, as that immunity is not calculated in all instances upon customs revenue directly collected and retained. The aggregate extent of this immunity was Rs. 182·42 lakhs in 1930-31."

*General Conclusions re: Sea Customs.*—"The customs right of Kathiawar and other states are, with very few exceptions, not the creation of any Treaty or Agreement but exist by virtue of the states' own sovereignty. They are rights cherished not only because of their financial importance, but also because they are the outward symbol of much that the states greatly prize. . . We understand and appreciate this point of view, but nevertheless we find it hard to reconcile with the ideal of a true federation the retention by any federal unit of its own sea customs receipts. Certain maritime states have stressed the point that the surrender of the right, possessed and exercised by most states, to levy land customs duties, is not in contemplation. But the analogy is a false one, for, inland customs duties, in so far as they are levied on goods from overseas, are an addition to the duties already paid at the ports, and their collection by the inland states does not subtract from the general customs revenues of the Federation."

"We are, however, convinced as the result of our enquiries that no port-owning state is likely to surrender its customs rights, even in return for full compensation<sup>2</sup>."

"If therefore, port-owning states are to enter federation as every one must desire that they should, room must be found for a compromise in which ideals and logic would yield in some measure to hard facts. An arrangement whereby the maritime states were at least enabled to retain in their own hands the

(1) Davidson Committee Report, p. 126.

(2) *Ibid.*, p. 129.

value of the duties on goods imported through their ports for consumption by their own subjects, even though it would involve some slight diminution of federal revenues, might well be accepted, in a federal scheme embracing so many diverse elements."<sup>1</sup>

"No arrangement of this kind could be contemplated in cases where it would conflict with Treaty rights. In cases where the situation is not complicated by the existence of such rights, it would involve either some system of financial adjustment whereby the state would retain or have refunded to it the amount which, consistently with the suggested principle, it was entitled to receive, or else the maintenance, where necessary, of a customs barrier<sup>2</sup>."

The problem relating to Indian State Railways will be discussed along with the question of Transport in a subsequent lecture. But we have seen enough of the nature of the complications that exist, and the desire of the states to have immunities from the contributions, which they are now paying to the Government of India in one form or another and to escape other burdens. Whatever the grievances of the states in the past regarding the management of such common objects, in the future Federal Government of India, the states should be willing to share an equal burden along with the Provincial units. This should be the natural corollary of the privileges that the states are offered in the control of Federal Policy, a control which they have hitherto not enjoyed. It may be pointed out that the new arrangement will lead to the improvement of their own status in relation to the Paramount Power.

#### IV. THE GOVERNMENT OF INDIA.

In view of the circumstances under which the Federation is to be formed, we shall have the future Government of India functioning in a dual character. In one sense it will be the Federal Central Government carrying out its duties regarding subjects classified as Federal. In another sense, it will be the Government of India of the present type carrying out its duties regarding subjects classified as Central. This is the inevitable consequence of the hesitation of the Indian states to hand over power to the Federal Government in all matters which on principle should be classed as federal. This is thus the heritage of existing arrangements.

The following is a list of Federal subjects<sup>1</sup> :—

1. Communications :—
  - (a) Railways.
  - (b) Aircraft and all matters connected therewith.
2. Shipping and Navigation.  
(1 and 2 Federal for Policy and Legislation.)
3. Ports, declared to be major ports by Governor-General in Council.
4. Posts and Telegraphs.
5. Customs.
6. Salt.
7. Income-tax.
8. Other sources of all-India revenue.
9. Currency and Coinage.
10. Public Debt of Federal India.
11. Commerce (including banking and insurance).
12. Development of industries (in cases where specially declared to be so by the Federal Government).
13. Census.
14. Geological and Botanical Surveys.
15. Central agencies and institutions for research.
16. All-India services.

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(1) For an exhaustive list, see White Paper, App. VI, List 1.

17. Light-houses.
18. Port quarantine.
19. Savings Bank.
20. Trading companies and other associations.
21. Cultivation and manufacture of opium.
22. Stores and stationery for Federal Departments.
23. Control of petroleum and explosives.
24. Inventions and designs.
25. Copyright.
26. Emigration and immigration into India.
27. Federal Police organisation.
28. Traffic in arms and ammunition.
29. Survey of India.
30. Meteorology.
31. All-India statistics.
32. Federal Services.
33. Immovable property acquired and maintained at the cost of the Federal Government.
34. The Public Service Commission (for the purpose of Federal services).

The following is a list of Central Subjects:—

<i>Description of subjects.</i>	<i>Remarks.</i>
1. Public Debt of India ..	Public debt of India on the date of the inauguration of the Federal constitution should be a central subject.
2. Stores and stationery ..	As regards central departments.
3. Central agencies and institutions for research or promotion of special studies.	Should be central as regards existing institutions and agencies.
4. Census ..	Central except for legislation and policy.
5. Public Service Commission ..	For central services should be central.
6. Regulation of mines ..	
7. Ecclesiastical administration ..	
8. Survey of India ..	
9. Zoological survey ..	
10. Benares and Aligarh Universities ..	Such other Universities as may be declared by the central authority.
11. Control of cultivation, manufacture and sale for export of opium ..	
12. Preservation of ancient monuments.	
13. Borrowing money on the sole credit of the Provinces ..	
14. Civil and Criminal Law ..	

It is obvious that the more important subjects are in the Federal list; that in the case of those subjects which are in the

Central list, efforts will be made to bring about uniformity by agreements; and that in practice a strict differentiation in administration will be difficult; even if separate departments are maintained, the policy will be influenced by the Federal Ministry.

The spheres of the Provinces, the States and the Federal Government regarding legislative powers will be defined according to the subjects allotted to them. We have already referred to some points in this connection *re*: residual powers, and concurrent powers<sup>1</sup>. In the administration of Federal subjects however, the Government of India will have authority to see that its decisions are carried out by the units in so far as they depend on the administrative agencies of the units. So far as the Provinces are concerned, this will mean a continuation of the present arrangements.

#### ADMINISTRATIVE RELATIONS WITH THE STATES IN FEDERAL MATTERS.

“It was recognised that the relationship of the Federal Government with the states cannot be in all respects identical with that which will obtain with the Provinces. It was agreed that the constitution should impose upon the states’ government an obligation to exercise their executive power and authority, so far as they are necessary and applicable, for the purpose of securing that due effect is given within their territories to every Act of the Federal Legislature which applies to that territory. It was further agreed that the constitution should recognise arrangements (which would, in fact, be made in suitable cases through the Instrument of Accession) for the administration by the states on behalf of the Federal Government of Federal subjects through the agency of staff and establishments employed and controlled by themselves, but that any such arrangements should be subject to conditions to be expressed in the constitution enabling the Governor-General to satisfy himself by inspection or otherwise, that an adequate standard of administration is maintained. Finally it was agreed that power should vest in the Governor-General *personally* to issue general instructions to the states’ governments for the purpose of ensuring that their obligations to the Federal Government specified in this paragraph are duly fulfilled<sup>2</sup>.”

In addition to this, the Federation will have power to intervene in the administration of Provincial subjects under certain

(1) For a list of subjects with concurrent powers, see White Paper, App. VI, List III.

(2) Third R. T. C. Report, p. 22.

conditions. This would be confined to the preservation of "law and order", would be done by the Governor-General personally, and carried out through the Governor.

#### RESERVED DEPARTMENTS.

There will be another dual characteristic of the Federal Government. Certain departments will be classed as "Reserved Departments", namely, Defence, External Affairs and Ecclesiastical. These will be in charge of advisers or ministers chosen by the Governor-General, and not responsible to the Legislature. For the other subjects, the Governor-General will select his ministers from the Legislature and they will be responsible to it. Thus the Federal Executive will consist of the Governor-General, his advisers for the reserved subjects, and his ministers responsible to the Legislature.

#### SPECIAL RESPONSIBILITY.

In addition to this, the Governor-General will have a "Special responsibility" not for spheres of administration, but for certain clearly indicated general purposes.

The matters or purposes in respect of which the Governor-General will have special responsibility are:—

- (i) the prevention of grave menace to the peace or tranquillity of India or of any part thereof;
- (ii) the protection of minorities;
- (iii) the preservation of the rights of the public services;
- (iv) matters affecting the administration of Reserved Departments;
- (v) the protection of the rights of the states;
- (vi) the prevention of commercial discrimination;
- (vii) the maintenance of good relations with other parts of the Empire;
- (viii) safeguarding of the financial stability and credit of the Federation.

*Governor-General and his Ministers.*—It will be provided in the Instrument of Instructions *inter alia* that "the Governor-General is to be guided by his Ministers' advice unless so to be guided would, in his judgment, be inconsistent with a special responsibility imposed upon him by the Act, in which case he is to act, notwithstanding his Ministers' advice, in such manner as he judges requisite for the due fulfilment of his special responsibility."

Besides, the Governor-General will have the following powers:—

- (a) The power to dissolve, prorogue and summon the Legislature.
- (b) The power to assent to or withhold assent from Acts, or to reserve Acts for the significance of His Majesty's pleasure.
- (c) The grant of previous sanction to the introduction of certain classes of legislative measures.
- (d) The power to summon a joint session of the Legislature in case of emergency.

In connection with fulfilling his special responsibility the Governor-General will possess—

- (e) The power to take action, notwithstanding an adverse vote in the Legislature.
- (f) The power to arrest the course of discussion of measure in the Legislature.
- (g) The power to make rules of legislative business in so far as these are required to provide for the due exercise of his powers and responsibilities.

“The general scheme underlying the proposals is that, wherever the Governor-General's responsibilities for the Reserved Departments, or his special responsibilities are involved, he should be empowered not only, as has already been explained, to act without, or, as the case may be contrary to, the advice of his Ministers, but also to counteract an adverse vote of the Legislature, whether such a vote relates to the passage of legislation or to the appropriation of funds.”

The Governor-General will also possess powers analogous to the present Ordinance-making powers to meet temporary emergencies. Such Ordinances will be limited in duration to a specified period, their continuation beyond that period being made dependent upon subsequent ratification by the Legislature.

#### THE FEDERAL LEGISLATURE.

The Federal Legislature will consist of two Chambers—the Federal Assembly and the Senate. These will be empowered to deal with the whole range of activities either federal or central. Differences of opinion exist regarding the relations of the two Houses; the British Indian Delegation desiring that the Assembly should have the initiative *re*: money bills, and the States desiring that the two Houses should be on a footing of equality in all matters. The Budget will be divided into Federal and



Central, and the latter will be referred to a Standing Committee of the British Indian members only.

“There is much to be said in favour of treating all members of the Federal Legislature as entitled and empowered to contribute their share towards the decision of all matters within the range of the Legislature’s duties. It would be clearly impossible so far as the Executive is concerned (which will, like the Legislature, be composed of representatives of both states and British India) to differentiate the functions of Ministers in such a way as to confine the responsibilities of states’ representatives to Federal matters; no workable scheme could be devised with this object which would not cut at the root of the principle of collective responsibility in the cabinet. For this reason, the states desire with the general assent of the sub-committee, that their representatives in the Legislature should play their part equally with their British Indian colleagues in expressing the decision of the Legislature on any question which involves the existence of the Ministry, even if the matter which has given rise to the question of confidence is one which primarily affects British India only. At the same time their Highnesses would prefer that the states’ representatives should take no part in the decision of matters which, being outside the range of federal subjects, have no direct interest to the states. It would, no doubt, be possible so to arrange business in the Legislature that Bills or Budget demands of this character should be dealt with either exclusively or in the Committee stage by a committee (analogous to the Scottish Committee of the House of Commons) consisting of the British Indian representatives alone<sup>1</sup>.”

Regarding the question of responsibility of the Federal ministers to the Legislature suggestions have been made to the effect that they should not be expected to resign unless a vote of no confidence is passed by a two-thirds majority of both Houses sitting together. This has been suggested in the interests of stability. Whether an adverse vote will be practicable, and whether the responsibility will be real, will be seen when we study the composition of the Legislature. It is clear in any case, that the greater portion of the Federal Budget, about 80 per cent. will be reserved and therefore, not subject to the vote of the Legislature.

#### FRANCHISE FOR THE FEDERAL LEGISLATURE.

*Federal Assembly.*—“The conference after full consideration accepted generally the proposal of the Franchise Committee that

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(1) Federal Structure Committee, 2nd report, para. 36.

the franchise for the British Indian section of the future Federal Assembly shall be the existing franchise for the provincial legislative councils, except in the case of C.P. in which it should be a franchise which would bring in double the existing electorate for the provincial council."

The Franchise Committee had proposed that the above recommendation should be supplemented by an educational qualification which in the case of men should be the possession of the Matriculation or the School Leaving Certificate or the equivalent in the case of Madrāssās, pathshālās, and other vernacular schools. The Conference however did not come to any decision on this point.

In the case of the *Depressed Classes* the addition of a qualification of mere literacy to the qualifications prescribed for the general electorate was recommended by the Franchise Committee and found agreement in the Conference.

*Women.*—".....the Conference as a whole accepted the proposals of the Indian Franchise Committee for the special reservation of seats for women, to be filled by the election of one woman by each provincial legislative council."

*Labour.*—The proposal of the Franchise Committee for special representation of Labour by the reservation of 8 seats in the Federal Assembly was accepted by the Conference.

*Commerce and Industry.*—"The general sense of the Conference was in favour of the acceptance of the Franchise Committee's proposal that the representation of commerce should be concentrated in the Assembly and that four seats should be allocated to Indian and four to European commerce. The view was, however, expressed by some Indian delegates that those recommendations did not provide adequately for the needs of Indian commerce."

Reference was also made to the importance of securing adequate representation for up-country industrial interests, and the difficulties which might arise under the proposals of the Franchise Committee in providing for this.<sup>1</sup>

*Landlords.*—The Franchise Committee have recommended the retention of special representation for landlords in its existing strength.

The Federal Upper House is to be elected by the provincial legislative councils by the single transferable vote. The Muslim

(1) Third R. T. C. Head A. p. 10.

delegates wanted to defer judgment till they knew how this system would work on the communal proportion. It was agreed that there should be no representation of special interests in this House.

The communal arrangement for the Federal Legislature have not yet been announced. It is however understood that one-third of the seats allotted to British India in the Assembly should go to Mahomedans. Similarly, the share of the States in either House is not finally decided. It is expected that the representatives of the States in the Lower House will be one-third of the whole number; and in the Upper House they will be 40 per cent. The way in which the States will send their representatives has not been decided, but some grouping of the smaller States is inevitable.

The numbers of either House are also to be fixed; 300 to 450 has been suggested for the Lower House. A figure as small as 60 has been suggested for the Upper House.

#### ECONOMIC INTERESTS IN THE FEDERAL LEGISLATURE.

Coming to the question of the representation of economic interests in the Federal Legislature, we find that in the Federal Assembly, the retention of the existing property qualification for Provincial Councils will be responsible for a proportionately larger number of voters being drawn from rural areas. The depressed classes, who are to get a special voting power, may also be considered chiefly representing rural interests in addition to their own, so far as the constitution of the Assembly is concerned. The educational qualification, both for men and women, if applied, will bring in a good number of the educated mostly drawn from the towns and cities. The arrangements by which there will be reservation of seats for special interests in the Assembly will make it possible for certain economic interests to make themselves heard. But these are also so balanced that the strength of those who believe in a progressive economic policy in commerce and industry will be comparatively small. We have 8 seats reserved for commerce, 8 for labour, and 7 for landlords. Out of the 8 seats reserved for commerce, 4 will go to Europeans and 4 to Indians. The seats specially reserved for women will have more a social significance than economic, and besides, there is bound to be the repetition of the communal grouping in the Assembly as in the provincial councils. The Assembly will therefore present a variety of conflicting interests, each interest being represented by a small group. The provincial interests will be another dividing line between the members of the Assembly;

in other words, there will not be sufficient cohesion between any large section in the Assembly, which will be constitutionally divided into several parts with different loyalties. Such a state of affairs will not bring about a consistent well-planned economic policy, because economic questions will be decided by the accidental grouping of small parties on each important occasion, such grouping being determined by considerations which need not necessarily be healthy.

But when we remember that one-third of the Assembly will consist of the representatives of the Indian States, we may be sure that this group will, as a rule, have a common interest, which will bind them together as against the divided interests of British India. It should not therefore be difficult for the representatives of the States to dominate the proceedings of the Assembly, because an organised group which works together in modern parliamentary institutions is more effective. If this means that the decisions of the Assembly will reflect more the opinions of the representatives of the States than those of British India, we shall have in future, not the progressive realisation of self-government, but the substitution of the present system by a new system in which the government of the country will be controlled by the irresponsible rulers of Indian States and the equally irresponsible Civil Service.

The Senate will in no way be better than the Assembly; it will represent the various interests in the different provincial councils, who will be the electors of the members of the Senate. Besides, the percentage of the representatives of the States in the Senate is likely to be more than that in the Assembly, namely, 40.

The conclusion that we arrive at from a consideration of the franchise and the constitution of the various legislative bodies to be created is that though a few special arrangements for the representation of some economic interests have been made, on the whole the legislature will not represent progressive economic thought in the country, that in outlook a majority of these bodies will be of a conservative temperament, and that the formation of large organised parties or groups for the adoption of well-conceived national economic policies will therefore be difficult.

## V. FINANCIAL RESOURCES.

The possibility of material progress in different directions will depend to a great extent on the power of the representatives of the people to enforce their will in the administration of the finances of the country. We have seen that there are important limitations regarding the nature of the control which the Legislature can exercise over the Executive in financial matters. But taking the sphere within which such control is possible, progress depends on another important factor, namely, the amount of resources available to the Government, either Provincial or Central, with reference to its functions, and the scale of expenditure. We have to remember the fact in this connection that the existing scale of expenditure will not be subject to a drastic reduction. It is not so much a question of distributing the revenue on different State activities in the proportion in which the people may desire for their own welfare. We are going to start with certain large items of expenditure, more or less on the present basis, for example, the military services, and the high scale of pay to the civil services, in connection with which the expenditure will be reserved, and therefore will have to be incurred in any case; the same will be true regarding the service of the debt. Besides, it may be observed that the enlarged legislative bodies will mean considerable additional cost. The position therefore is that after meeting such fixed charges, the remaining departments of the State have to be fed from the resources which would then be available.

### DIVISION OF RESOURCES.

So far as the existing sources of revenue are concerned, it has been generally agreed that the division between the Provinces and the Central Government will be on the lines now in vogue, with the exception of income-tax. For example, Customs, Salt, Opium, Railways, Currency and Mint and so on will continue to be Central sources of revenue; Land, Excise, Forests, Registration, Stamps and so on will continue to be Provincial sources of revenue. The most important proposal is a division of the income-tax between the Provinces and the Central Government. The scheme also provides for contributions from the Provinces to the Centre for some years; in some cases there will be subventions from the Centre to the Provinces. The position of the

Indian States in the financial scheme is also of obvious importance, and has raised complicated questions.

The underlying ideas on which the proposed scheme is based are: "to provide that all Provinces may start with a reasonable chance of balancing their budgets; to afford them the prospect of revenue sufficiently elastic for subsequent development; to assure the solvency of the Federation; and to ensure that, after an initial period, the federal sources of revenue shall be derived from British India and the States alike.

#### TREATMENT OF INCOME-TAX.

By a permanent constitutional arrangement, the proceeds of the income-tax will be divided between the Provinces and the Federal Government. Corporation tax, tax on Federal officers, tax in Federal areas; tax on Government of India securities, and tax on the incomes of persons not resident in British India will be Federal. The rest would go to the Provinces.<sup>1</sup> This is subject to detailed examination. It has been estimated that these heads would yield 5½ crores out of a total of 17½ crores of normal revenue. This would give the Provinces a large share of the income-tax raised within their areas, with the possibility of sharing in the future increase in this tax in the same proportion. The acceptance of this arrangement is likely to remove the anomaly by which the Provinces have to look after spending departments, whose potential capacity to spend is almost unlimited, though the sources of revenue at their disposal are not sufficiently elastic. But it has been found that if this were done from the start, the Federal Government would be in a large deficit. There was a similar difficulty when the Montague Act came into operation. This was solved by means of Provincial contributions as proposed by the Meston Committee. The history of these contributions is not a happy one, and every one is agreed on the undesirable consequences to which they lead. In spite of this no other alternative has been found and the scheme provides that for a certain number of years, called *x* years, the Provinces shall contribute to the Central Government certain amounts to make up the Central deficit. These are to be levied in proportion to the share of the income-tax which each Province is to receive under the permanent scheme. After making some adjustments, the scheme provides for the following arrangement:—

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(1) This has been further reduced by the White Paper, as explained later.

*Lakhs of Rupees.*

<i>Province.</i>	<i>Share of Income-tax.</i>	<i>Contributions.</i>
Madras ..	183	141
Bombay ..	322	248
Bengal ..	405	205
U. P. ..	123	95
Punjab ..	91	70
Bihar & Orissa ..	107	35
C. P. ..	59	37
Assam ..	29	..
N.-W. F. Province ..	10	..
Sind ..	21	..

There are two important defects in this scheme. On the one hand, the contributions are arbitrary and introduce an element of injustice as between the Provinces. Considered from the point of view of population, taxable capacity, or expenditure on nation-building departments, this is inequitable, and is particularly hard on the older provinces of Bengal and Bombay. The other defect is that during the period of the undefined years  $x$ , which may be ten or more, the Provinces will be in no better position than now. They will in effect be giving away with one hand what they receive with the other. Progress in nation-building activities by the Provinces, which are notoriously in deficit in spite of increases in taxes in recent years, will be blocked for many years to come.

## CONTRIBUTIONS OR REDUCED RECEIPTS.

The proposal for contributions has been replaced by an apparently more simple arrangement in the White Paper. There will be a transitory provision in the Constitution Act by which the Federation will be allowed to retain a block amount out of the proceeds of income-tax meant for the Provinces. This would be fixed for three years, and would be gradually diminished over the next seven years, so that at the end of ten years, the Provinces will get their share as originally intended. It will, however, be possible for the Governor-General to suspend the programme of reduction if he thinks that it would endanger the financial stability and credit of the Federation. The general criticism made above regarding the difficulties of the Provinces remains true even under this new procedure of keeping the Federal Government solvent.

## SUBVENTIONS.

There is another side to the picture which is bound to be represented under the circumstances. The separation of Sind and

Orissa involves payment from the Central Treasury to keep them on their legs. These are known as subventions, the total of which will easily be a crore of rupees. This means that a good portion of what the Centre is receiving from some provinces will be distributed among these deficit provinces.

THE POSITION OF THE STATE.

The other cause of trouble will be with reference to the contributions of the States to the Federal Treasury. We have already considered the point of view of the States in this connection. Whatever their grievances in the past regarding the management of common objects by the Government of India, their position in the new constitution makes ample amends for the same, at the cost of the people of British India, by giving them weightage in the Assembly and in the Senate. We have seen how in practice, the voice of the States will be the determining voice in the matter of Federal Policy in many important questions in future. It stands to reason therefore that the contribution of the States to the Federal Treasury should be adequate, and in due proportion to the place assigned to them in the new constitution. In this connection one may take the representation of the States in the Federal Legislature as to the basis; this is more than one-third. One may also take the area covered by Indian States territory; this is two-fifths; or we may take population as the basis; this is one-fifth. We must consider whether the contribution of the States conforms to any of these tests.

The States have naturally pressed that their direct and indirect contributions should be taken into account in any scheme of Federal Finance. Expert investigations have been made in this connection. It has been estimated that the total contribution of the States to the Central Treasury on the existing basis is 1071 lakhs, made up as under:—

	<i>Amount in Lakhs of Rupees.</i>
1. Customs	600
2. Excise—	
(a) Imperial—	
(i) Petrol	20
(ii) Kerosene	15
(b) Provincial	15
3. Salt	111
4. Tributes	72
5. Armies maintained by Indian States.	238
Total	1,071



Full credit cannot be allowed to the States for their expenditure on their own troops; these are not available to the Federation whenever necessary. The States may lend their services of their own free will. Besides, the level of efficiency of these troops is not the same as that of the Indian Army. It is at the same time true to say that the troops are maintained by the States as a matter of personal dignity for the Rulers, and also for use in case of internal disturbance. In view of these considerations, if we assume the round figure of 10 crores as the total direct and indirect contribution of the States to the Federal Treasury, we shall not be underestimating the same.

Out of the Federal Budget of 80 crores and more, this amounts to a bare one-eighth. And in order that we may continue to have this privilege, we are asked to invite the States to have a predominant share in the control and determination of the Federal Policy of this country in future. It is possible that this point of view was pressed at the R.T.C. The result is however very poor. The principle that in an ideal system of federal finance all Federal Units should contribute on a uniform and equitable basis to the federal resources is assumed. It has been laid down that contributions of a special character (cash in the form of tributes or ceded territories) from the States should be gradually eliminated. The period of this elimination is to coincide with the period of the abolition of Provincial contributions, say  $x$  years. At the same time, it has been laid down that the immunities or privileges which the States now enjoy in respect of certain heads of federal revenue (sea customs, salt, posts and telegraphs) should also disappear. Of this the most important item from the point of view of revenue is sea customs. The fourteen Maritime States which enjoy this immunity get over 180 lakhs of revenue out of the same. The question of extinguishing this immunity will involve some compensation to the States. At the same time, the Maritime States are to retain at least the value of the duties on goods imported through their ports for consumption by their own subjects.

It is obvious that these arrangements do not improve upon the scheme of Federal Finance so far as the poor contribution of the States is concerned. The States have agreed to assume liability for corporation tax or its equivalent on certain conditions. In the first place, they will not pay it till the expiry of  $x$  years by which time their tributes shall have disappeared. In the second place, they make a condition that a satisfactory yield from taxes on income should be permanently assigned to the Federation which according to them is  $8\frac{1}{2}$  crores out of  $17\frac{1}{2}$  instead of  $5\frac{1}{2}$

crores, which the B.T.C. scheme provides for. This would make the difficult position of the Provinces still worse even at the end of  $x$  years, and in no way shows that the States are willing to pay their due share, even in due course.

#### THE ATTITUDE OF THE STATES.

The view of the States seems to have prevailed with the authors of the White Paper.<sup>1</sup> After referring to certain parts of the present income-tax (*e.g.*, corporation tax) as being entirely federal, the White Paper proposal is that "the remaining net proceeds . . . will be divided between the Federation and the Governor's Provinces,  $x$  per cent. being assigned to the former, and the remainder to the latter". The exact figure is subject to fuller inquiry, but it is intended that percentage  $x$  should be not less than 25 and not more than 50.

If we take the present basis of income-tax, we find that out of a total revenue of  $17\frac{1}{2}$  crores,  $5\frac{1}{2}$  crores will be wholly federal. Out of the remaining 12 crores, if the minimum of 25 per cent. mentioned above is taken by the Federal Government it will mean another 3 crores, leaving 9 to the Provinces. This will mean a share of  $5\frac{1}{2}$  plus 3 or  $8\frac{1}{2}$  crores for the Federal Government, or exactly the figure demanded by the States as one of the conditions of their entry into the Federation. The greater the amount of resources that the Federal Government can have at the cost of the Provinces the lesser the demand on the States for a share in the Federal revenues—this seems to be the key to the attitude of the States, and this has obviously prevailed.

The same source of revenue, namely, income-tax, is the subject of certain emergency provisions also of a dual character. The Federal Government will have the power to levy for its own purposes, additional taxes on the heads of income-tax permanently assigned to the Provinces. At the same time the Provinces will have the right to levy a surtax upon the personal tax levied on its inhabitants under the heads permanently assigned to the Provinces, subject to a maximum of  $12\frac{1}{2}$  per cent. of the tax centrally imposed.

#### INCOME-TAX—THE BONE OF CONTENTION.

We may therefore take it that this important source of revenue will be the centre round which the future financial quarrels between the Provinces, the Federal Government and the States will revolve. It is obvious that in the first decade of the new

(1) p. 22, para. 57.

constitution, the Provinces will not have the benefit of even this expanding source of revenue; thereafter, whatever benefit they may derive from their share of income-tax, will be subject to the complicated arrangement already described. The conclusion is inevitable that for any important state activity conducive of material progress, the provinces will be considerably handicapped in the first ten years of the new constitution, by which time their needs may grow to such an extent that the available additional revenue from income-tax may be inadequate.

#### EXPORT DUTY ON JUTE.

There is one other special feature which may assume importance in the financial sphere. The Province of Bengal has been in deficit, chiefly due to the Permanent Settlement, which brings a lower yield of land revenue to Bengal, as compared with other Provinces. There is a general desire even among responsible people in this province that this inequality on land revenue should be removed. Instead of this, Bengal is to get a share from the export duty on jute. There are obvious objections to allow the yield from export duty to go to a provincial unit; the proposal therefore has been to abolish the export duty and to replace it by an excise duty, to be distributed among the provinces where it is levied. The representatives of Bengal, however, hold the view that they should have the whole proceeds of the export duty, though, for the early period, when provincial contributions are to continue, the proceeds may be equally shared between the Central Government and Bengal. The White Paper has laid down that in the case of the export duty on jute, at least half the net proceeds must be assigned to the producing units.

#### GENERAL RESULTS.

The extremely unsatisfactory arrangement in the division of resources, which is thus presented, is further complicated by several uncertain factors. The prevailing world economic depression and monetary chaos have their effects on prices and trade, which make it impossible to calculate with any degree of accuracy the yield from certain sources of revenue. The uncertain question regarding Burma also introduces complications. If Burma is separated, there will be important repercussions on Federal Finance, to which we have already referred.

Taking the fixed charges, namely Defence, Debt Services, the Civil Services and so on, and also taking the increase in expenditure due to elections and democratic forms of Government, we may come to the conclusion that the division of revenue resources

suggested by the Scheme of Federal Finance will be unsatisfactory to all, and will have little scope for schemes of material improvement of any substantial character. The question is whether it is possible to find more funds by additional taxation.

In this connection the observation of Sir W. Layton are of interest. We shall refer to a few of them. The total tax revenue collected in India for both central and local purposes comes to about 6 per cent. of the total national income, if we estimate the latter at Rs. 107 per head, which is the most optimistic view, and to about 8 per cent. if we take the national income to be Rs. 80 per head as calculated by the more pessimistic view. In Britain and Japan, the proportion is about 20 per cent. But it must be remembered that it is impossible "to take in taxation as large a proportion of the income of people who are living on a bare subsistence level as is possible in cases where there is an appreciable margin over the minimum needs of life."

It may be asserted that a few cases of the rich can be found who can bear higher taxation, provided the tax system was properly adjusted to the capacity of the tax-payers to pay. While this would be a desirable form of reform, it is not likely to yield a net additional total of any importance.

Again, the constitutional objections for raising more taxes will persist. The elected members of the Legislatures are not willing to incur the unpopularity of voting higher taxation, because there are no adequate means of ensuring that the revenue will be spent on services which they want to develop. The same is true so long as there is room for reducing expenditure on services not under popular control. Except to a limited extent in the Provinces, those objections will continue under the new constitution.

#### ADDITIONAL TAXATION.

In spite of this, the possibility of raising additional taxation has been explored by the different bodies which have investigated this problem. Among the possible sources thus considered, may be mentioned, Excise on Tobacco; Excise on Matches; Succession Duties; Terminal taxes; Taxation of Agricultural Income. The exemption of Agricultural Incomes would have to go with the reform of the land revenue system, but it is doubtful whether it will in the end mean a net gain to the Treasury. Terminal taxes are objectionable because of the annoyance they cause to trade. The introduction of Succession duty was attempted in Bombay, but without success. In any case, the additional revenue

expected from this source is not large. These three sources would come under the purview of the Provincial Governments.

The levy of an excise on tobacco and matches by the Central Government would bring a large revenue. Both are articles of general consumption. There are obvious difficulties of collecting a tax on tobacco; whereas it is easy to collect it in the case of matches. Production and consumption is scattered throughout the country in the former case; in the latter case production is organised and is in the hands of a few factories. The difficulties of taxing tobacco have been overcome in some Indian States, particularly Travancore. The Bombay Municipality also collects a tax on tobacco. If this experience is utilised, and similar rates are levied, we may have a large revenue from this source, say, 10 to 15 crores. The yield of an excise on matches has been estimated at 3 crores; besides this is easy to collect and administer.

In view of the fact that taxation on articles of common consumption like salt already exists and has aroused deep resentment, taxation of matches, and particularly of tobacco will be highly unpopular, and will press heavily on the masses of the people who are admittedly on a low level of subsistence. It is possible that an excise on sugar, also an article of general consumption, will have to be levied soon, to make good the loss on revenue due to the reduction of the imports of sugar, because of the growth of the Sugar Industry in India under a policy of protection.

If the taxable capacity of the people has been reached, the only salvation lies in finding other means to bring about a better equilibrium in the scheme of Federal Finance. We have already indicated one source, namely, a larger and an equitable contribution by the states to the Federal Treasury, in one form or another, which in turn will enable the Federation to relieve the Provincial units from the burden of contributions.

#### REDUCTION IN EXPENDITURE.

The other source of relief is economy in expenditure in all departments, and particularly in Defence. The following observations of Sir W. Layton in this connection are pertinent:—(1) The high proportion which current expenditure on Defence bears to the total expenditure of the Central Government (62 per cent.)—a higher proportion than in any other country of the world. Even if we take the provincial expenditure into account, the ratio (31½ per cent.) is still very high. This ratio is high partly because other kinds of expenditure are low. (2) The burden of the expenditure is increased by the fact that the Army contains

a large element drawn from elsewhere. "It is to be remembered that the extent to which taxation is felt as a burden depends very largely on the objects on which a Government spends its revenue." . . . . "If therefore, the high Defence ratio in Indian Government expenditure remains a peculiarly burdensome one, and it would be reasonable to assume that, even if the total expenditure of India were increased, the burden would be more tolerable and more readily borne, provided this particular charge were diminished." (3) India's "expenditure on armaments is between two and three times as great as that of the whole of the rest of the Empire outside Great Britain." (4) The total has greatly increased as compared with the pre-war situation. "India in fact has not obtained any relief from the greater sense of world security which has succeeded the World War."

## VI. PRODUCTIVE ACTIVITIES IN RURAL AREAS.

The representatives of the people will have some amount of independence with reference to those departments which are commonly described as nation-building departments, namely, agriculture, irrigation, industries, education, medical, public health and so on in the Provinces. Though the activities of most of these departments do not normally strike the imagination or raise controversies, which are frequent with reference to other spheres of state activity under the control of the Central Government, there is no doubt that the state comes in the greatest contact with the masses of the people through these departments, and is in a position to improve their condition fundamentally. The future progress of the country must rest on the extent to which the masses of the people are enabled to take forward steps in all directions, economic, social and political. The work to be done in order that millions of people living in remote and scattered villages, in a state of comparative ignorance and illiteracy, may be able to improve their economic status, is immense, both for the state and for those private agencies which undertake such work. Unless the activities in urban areas are so devised that they may have a healthy re-action on those in rural areas, and unless the rural population is in a position to take more active and conscious part in their own welfare, we shall not have that all round progress which is desired.

### LAND REVENUE.

Till the beginning of the war, the state in this country depended chiefly on land revenue as its principal source of revenue. With the development of customs and income-tax, we find that the relative position of land revenue is not now so high. But the absolute amounts taken by way of taxation from the annual agricultural production still remains about the same. The growth of other sources of revenue shows on the one hand the growth of the expenditure of the state, and the difficulty of raising more revenue from the land on the other, indicating incidentally that the maximum that could be squeezed out of the land was being taken. Land being the principal source of revenue from times immemorial in this country, the agricultural population was subject to a variety of treatment by changing rulers and their agents. In addition to the uncertainties of the weather, to which the farmer

is liable, he had equally uncertain relations with the changing states, during the chaotic period which preceded the establishment of British rule. From the times of the East India Company onwards, with the establishment of the modern land revenue system by British officers in various parts of the country, we have had on the one hand peace and settled rule as against continuous warfare and absence of proper administration. On the other hand there came simultaneously a rigid administration bent on exacting to the pie what was laid down in connection with the land revenue assessment. Though the population increased, the impetus for a corresponding increase in production was not forthcoming, partly because there were no other alternative means of employment, and partly because the gains from the land were subject to several limitations. Without going into the history of the last hundred years, we may mention only a few of the more glaring defects which have crept into the life of the villages. In the first place, there is the tendency to sub-division and fragmentation of holdings, which makes it impossible to do efficient or economic cultivation. Besides, the state of indebtedness of the Indian farmer, which has become proverbial, has led to the transfer of lands to the sowcars as a normal process, and to occasional riots as an abnormal symptom of the situation.

#### BENEFICENT ACTIVITIES: PRESENT LIMITATIONS.

The series of large famines from which the country suffered during the last century led to investigations into the conditions of the peasants, with this consequence that we had on the one hand the development of a famine policy, and some advance in schemes of irrigation. The establishment of the Agricultural Departments to teach modern methods of cultivation to the farmers of the country came later. In more recent times, we have the Department of Co-operation, which is chiefly concerned with helping the farmers in obtaining cheaper credit than they are able to get from sowcars. The Department of Industries in the Provinces has sometimes met with changing fates, but its chief task seems to be to develop cottage industries in rural areas. With the inauguration of the Montague Reforms, it was found that the resources of each Provincial Department in charge of such rural activities were bound to be limited. This was particularly felt with reference to the larger schemes of research and scientific improvements. The need for co-ordination in this connection was emphasised by the Royal Commission on Agriculture, which led to the appointment of the Imperial Council of



Agricultural Research. The work that this body is entrusted with had begun in one important case, namely, cotton, by the establishment of the Central Cotton Committee under a special Act of the Central Legislature.

Though each of such beneficent activities has its own place and is capable of doing good, most of them have so far touched only the fringe of the population. It is possible to read glorified accounts of the activities of this or that department, in Government reports, but if we relate these activities to the population concerned, we at once get the idea of the small percentage of population which has been able to take advantage of these activities. Another way to look at the limitations of these departments is to consider the expenditure incurred on them in the provincial budgets. For example, taking the last five years, the expenditure on the Agricultural Department in the Bombay Presidency has been less than 2 per cent., in the U.P. it has been less than 3 per cent. of the Provincial expenditure. The corresponding percentages under irrigation are 6 and 8. The expenditure on industries, however, is 0.2 per cent. in the U.P. While we are considering this data, we may at the same time consider the expenditure on other departments which concern rural life, and which are of value at least indirectly in helping to increase production. The expenditure on education in Bombay during the last five years has varied from 11 to 14 per cent., in the U.P. it has varied from 15.5 to 17 per cent. This includes expenditure on secondary and University education, and the amounts available for the spread of education in rural areas are therefore not all that is indicated by these figures. The expenditure on the medical department has been about 3 per cent. in Bombay and a little less in the U.P.; on public health it has been a little less than 2 per cent. in both these provinces.

We give in an appendix to this chapter tables showing in percentages the amount of expenditure incurred in the different provinces on nation-building departments.

It would be of interest to estimate the amount that the state returns to the people of rural areas, and compare the same with what it takes. The various intensive inquiries which have been made in the life of different villages have in some cases considered the problem of the return which the state gives to the village or the area in lieu of what it takes by way of taxation. The percentage is invariably less than 20, which means that 80 per cent. of what the state receives from rural areas is spent for purposes other than the welfare of the people of the areas concerned.

Another important aspect in which rural life can be assisted is to develop rural areas by building suitable roads, and to connect them properly with the nearest railway lines. We shall consider the problem of rural transport along with that of the larger transport facilities in the country.

#### BENEFICENT ACTIVITIES—NEED FOR EXPANSION.

In the Provincial legislative councils under the proposed constitution, we shall have a large number of representatives of agricultural life; the demand for the improvement of the lot of the farmer must therefore be loud and insistent. There will be a demand for a thorough revision of the land revenue policy, for example; this will not enable the state to receive more, but in all probability there will be a tendency to reduce the burden on the land. Legislation to deal with such chronic evils as that of fragmentation of holdings and rural indebtedness will be undertaken. More systematic arrangements for teaching the technique of small industries, their organisation and marketing, will have to follow. Improvements in the breed of cattle, in the use of manures and in the matter of agricultural implements will be called for. The room for additional irrigation facilities is great; we may have large canals where possible, but at the same time small schemes of irrigation may take place and may be taken advantage of; corresponding expenditure on education, sanitation and medical facilities will have to be incurred. We shall indicate later that the same is true of the development of roads and other facilities for communications in rural areas. These facts have been enumerated merely in order to give a picture of the magnitude of the task before the responsible provincial minister of the future, and the unlimited directions in which he can extend his activities for the economic uplift of the people. It is no wonder that these departments are described as nation-building departments, because they are basic departments on the successful working of which must depend the national progress of the masses. The main question is whether and to what extent these desirable activities can be pursued successfully by the ministers under the proposed constitution.

#### INADEQUATE FINANCES.

As we have already seen in connection with the distribution of financial resources between the Provinces and the Federal Government, we shall find that on the existing basis of taxation the Provincial budgets will just balance for the expenditure that they will have to incur for the proposed functions under their charge. The level of expenditure will not be substantially reduced

in certain branches, in which it is generally believed that there is scope for reduction. For example, the interests of the services will be guaranteed by the constitution, which will at least mean that the scale of pay available to them will not be under the control of the legislature. Though the existence of reserved departments, which are a feature of provincial governments at present, will disappear, there will be a special responsibility of the Governor for the protection of minorities, for the maintenance of law and order, and for the carrying out of a similar responsibility of the Governor-General; all this may mean a continuance of expenditure on certain corresponding services more or less on the present level. We have also discussed the possibilities of additional taxation, and we have come to the conclusion that it is not possible to have substantial additions to the existing sources; on the other hand, it is possible that the two main sources of revenue available to the provinces, will yield diminishing amounts of revenue. Improvements in the land revenue system must result in some relief to those farmers who are on the margin, and even if agricultural incomes of larger dimensions are taxed in future, the total revenue will not be large except perhaps in Bengal. The excise revenue which is next in importance is likely to suffer because of the prohibition movement; in any case a substantial increase from this source cannot be thought of, for the purposes of additional expenditure, on new activities, to develop directly and indirectly the economic and other resources of the people. The only source of revenue which the Provincial Governments can count upon is income-tax. As we have already seen, the share of the income-tax which it is proposed to be assigned to the provinces as a permanent feature of the constitution will not be available to them till the federal budget can be balanced. This may require an undefined period of years; the minimum is 10; it may be 15 or more. Till this period expires, provincial contributions<sup>1</sup> will continue, which means the share of income-tax which each province is supposed to get will have to be handed over to the Federal Government. It is true that the two amounts do not tally exactly, and the provinces in some cases will be left with a small yield from income-tax after paying the contributions. It is also true that if the general economic conditions improve, the yield from income-tax will increase, and the share of the provinces may increase in proportion. The latter contingency is however, remote, and in any case the amounts available to the provinces for

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(1) Under the White Paper Scheme, the Federal Government will take a share of the income-tax receipts meant for the Provinces during a transition period. The effect of this on the Provinces will be similar to that due to contributions.

the first ten or fifteen years of the new constitution will be meagre, compared with the unlimited amount of work that is before them for advancing the economic status of the people. By the time that the Federal Budget is in a position to give relief to the provinces, that is, after 10 years, the position of the provinces from the point of view of resources to spend on beneficent activities may not be comparatively better. During the past 10 years under the Montague Reforms, these activities have been starved; during the first 10 or 15 years of the new constitution, the same story will have to be repeated. In the interval, the population is likely to increase with the average standard of life thus reduced, because there is no reason to believe that under the proposed arrangement the production will increase. This means that when in future the provinces are in a position to command their share of income-tax as now contemplated, they will have such a formidable task of arrears in nation-building departments to meet on the one hand, and to satisfy the demands of a growing population for such activities on the other, that the proposed resources at that period are likely to prove quite inadequate. Considered from the point of view of the immediate future or of an ultimate arrangement of a permanent nature, the financial scheme is such that it will be a great block in the way of progress in connection with those basic requirements of the people on which the economic structure can be soundly laid. Under the circumstances the picture is gloomy from the point of view of the responsible provincial ministry of the future or of the people of the provinces themselves so far as their economic advancement is concerned.

APPENDIX.

Percentage of Provincial expenditure on certain nation-building departments in the different provinces.

BIHAR AND ORISSA.

Department.	1931-32	1930-31	1929-30	1928-29	1927-28
Education ..	14.6	16.2	14.6	14	14.6
Medical ...	4.6	5	4.7	4.5	4.6
Public Health ..	1.8	3	3.5	2.3	2
Agriculture ..	2.6	2.7	2.4	2.3	2.5
Industries ..	1.5	1.9	1.7	1.6	1.5
Irrigation ..	0.5	0.6	0.4	0.6	1

## CENTRAL PROVINCES.

Department.	1931—32	1930—31	1929—30	1928—29	1927—28
Education	11·5	13	12·4	12	10
Medical	3	3·2	3·2	3·2	2·6
Public Health	1	1	1·3	1·2	0·5
Agriculture	4	4·3	4	3·4	3·4
Industries	0·7	0·5	0·7	0·5	0·3
Irrigation	6·5	6·3	6·5	5·4	5·2

## ASSAM.

Education	12·5	13	11·8	10·6	10·3
Medical	5·3	5	5	4·4	4
Public Health	2·6	3	3	2·8	4
Agriculture	3·3	3	3	2·5	2·2
Industries	0·7	0·8	0·7	0·6	0·7

## BENGAL.

Education	12	11·4	11·4	11·5	11·4
Medical	5·3	4·8	5·5	4·8	5
Public Health	4	3·2	3	3·5	3
Agriculture	2·7	2·1	2	2·3	2
Industries	1·2	1·1	1·1	1·2	1
Irrigation	3	3	3	3	3

## PUNJAB.

	1932—33	1931—32	1930—31	1929—30	1928—29
Education	13	15·7	15·7	15	14
Medical	4	4·6	5	4·5	4·5
Public Health	1	1·4	1·8	2·4	1·8
Agriculture	4	4·7	5·6	5·4	5
Industries	0·8	1	1	1·3	1
Irrigation	13·5	15	13·4	12	12

## MADRAS.

	1929—30	1928—29	1927—28	1926—27	1925—
Education	14·7	14·6	12·4	12	11
Medical	5	4·5	3·8	4·2	3·5
Public Health	2·5	2	1·4	2·2	2
Agriculture	2·4	2	2	2	1·8
Industries	1·1	1	1	1·1	1
Irrigation	3	3	2·8	3·2	2·8

## BOMBAY.

	1933—34	1932—33	1931—32	1930—31	1929—3
Education	11·5	11	12	14	12·2
Medical	3	3	3	3·5	3
Public Health	1·7	1·5	1·5	2	2
Agriculture	1·7	1·7	2	2	2
Industries	0·2	0·2	0·1	0·1	0·1
Irrigation	6	6	6	7	6·2

## UNITED PROVINCES.

Education	17	17	15·5	15·5	15·5
Medical	2·5	3	2·5	3	3
Public Health	1·6	1·7	1·7	2	2
Agriculture	2·5	2·5	2·5	3	2·7
Industries	1	1	1	1	1
Irrigation	10·2	10	8	8	7·5

(1) The budget figures have been taken for this year.

## VII. PRODUCTIVE ACTIVITIES IN URBAN AREAS.

So far as productive activities in urban areas are concerned, we shall confine our attention chiefly to large scale industries. This does not mean that other industries do not exist, but for the sake of convenience, it would be better to deal with the most important category. It has been acknowledged on all hands that simultaneously with the necessary improvement in agricultural methods, unless adequate steps are taken to develop industries in this country so that we may utilise our raw materials ourselves, and at the same time absorb large numbers of people into useful employment, thus relieving the land of undue pressure, unless this is done, that desirable economic equilibrium in the life of the country, which we want, will not be possible. An increase in the national dividend, and its share available to the people of the country, will also depend largely on the efforts made towards this direction. A larger industrial production by absorbing a large number of people will enable the agriculturist to have a reasonable chance of existence, because at the present, there are too many mouths to be fed on the products of the soil. This means that a policy of industrialisation will have a healthy re-action on agricultural activities, partly because of a balanced distribution of the human factor on the one hand, and partly because of the larger demand for agricultural products for industries on the other.

This raises important questions relating to the equipment for industrialisation. Capital, organisation, industrial technique; marketing methods, skilled labour and a variety of such factors will have to be taken into account. At the same time, foreign competition will have to be faced and remedies planned to see that it gives an adequate chance to indigenous industries to exist. This will mean that state assistance in one form or another, whether by bounties on production or by protection in the form of import duties will be required. The other important problem closely connected with this is the control and management of the existing and future industrial ventures in this country. If industrial progress in this country gets into the hands of non-nationals, then its reward will to that extent not be shared by the people of the country. To the extent to which the increase in national production is not available to the people of the country, the policy must

be considered to be unsound, particularly in a country like ours, where such large masses of people are on the margin of subsistence. Before we go into the different aspects of this problem, let us briefly consider a few broad facts, regarding foreign investments in this country.

#### SOME DATA ABOUT FOREIGN COMPANIES IN INDIA.

In 1930 there were in all 881 companies which were incorporated elsewhere than in India but were working in India. The total paid up capital of these companies amounted to £740 million and debenture capital to £109 million. The total capital invested in these 881 companies thus comes to £850 million in round figures. This means that capital invested in each company comes to about one million pounds on an average. If we convert these figures into rupees we get the following figures:—

<i>No. of Companies.</i>	<i>Total Capital.</i>	<i>Capital of each Co.</i>
881	Rs. 1133 crores,	Rs. 133 lakhs.

The corresponding figures for companies registered in India are as follows:—

<i>No. of Companies.</i>	<i>Total Capital.</i>	<i>Capital of each Co.</i>
7000	Rs. 286 crores.	Rs. 4 lakhs.

The average foreign company thus is 34 times bigger than the average Indian company.

Besides this, many important industries in India are financed by outsiders, for instance the jute, tea and coal industries. To a great extent cotton mills in Madras, woollen mills at Cawnpore and in the Punjab, and several other industries are financed by foreign capital. Foreigners have also invested in Indian managed concerns like the Tata concerns. This relate to joint stock companies; besides, there are many foreign private firms also.

This will give some idea as to the extent to which the advantages of Industrial production in India are enjoyed by people other than Indians. At the same time, disparity between the size of an average foreign company, working in India, and an average Indian company will give some idea as to the sort of competition that is likely to take place between the two.

Since the outbreak of the War there has been a marked increase in the amount of Indian capital invested in Indian industries. But in spite of this a very considerable part of the capital invested in Indian industries is still non-Indian. Some of the effects of the investment of foreign capital are stated by the Central Banking Enquiry Committee in the following words:—

“The result is that the control and management in the case of some of the important industries are even now in the hands of non-Indians. The predominance of non-Indian management in some of the important industries has detracted from the value of Indian participation in industrial enterprises. Generally speaking, the managing agents, have not given any scope to Indians to hold such positions in the companies they manage as might have given these Indians an opportunity to have a comprehensive idea both in regard to the technique of production and management of the business,” *e.g.*, the Match Industry and the Swedish trust.

#### INTERNATIONAL CONVENTION *re.* INDUSTRIAL DISCRIMINATION.

In this connection reference may be made to the document prepared by the Economic Committee of the League adopted by the International Conference on the Treatment of Foreigners held in Paris in 1929. It is a draft Convention “to embody in a common statute the civil, legal, fiscal and economic safeguards which are indispensable for nationals of any contracting party who have been allowed to establish themselves in the territory of other parties in order to carry on their business or occupation therein, and to prevent any differential or unfair treatment which might in their own territory impede the trade of nationals of other countries.”

After laying down the necessary clauses in this connection the Draft convention provides that “these provisions shall not apply to the exercise in the territory of any of the High Contracting Parties, of the professions, occupations, industries and trades hereinafter specified:—

(a) Public functions, charges or offices (of a judicial, administrative, military or other nature) which involve a devotion of authority of the State or a mission entrusted by the State, or the holders of which are chosen either by the State or by the administration under the authority of the state; even if these are endowed with juridical personality and irrespective of whether or not they possess a territorial character, either general or local;

(b) Professions such as those of barrister, solicitor, notary, authorised broker and professions or offices which, according to the national laws by which they are governed, entail special responsibilities in view of the public interests;

(c) Industries or trades forming the subject of a state monopoly or monopolies exercised under state control;

(d) State undertakings;



- (e) Hawking and peddling;
- (f) Fishing in territorial and inland waters, and the exploitation of the riches of such waters, the coasting trade, pilotage, and the internal services of ports;
- (g) Service in vessels or aircraft flying the national flag;
- (h) The exploitation of minerals and hydraulic power;
- (i) The operation of public services and of industries forming the subject of concessions;
- (j) The manufacture of arms and munitions of war;
- (k) Direct and indirect insurance operations carried out by individual underwriters."

It may be added that the parties to this Convention were free and independent countries. As against this, in the case of India, where industries have had few opportunities of national development, the case for similar and even wider exceptions in the interests of nationals is obvious. In this connection, it will be of interest to review briefly the present position and the proposed constitutional arrangements affecting industrial policy.<sup>1</sup>

The Indian Fiscal Commission was emphatic about the national outlook of industries which received state assistance. The Commission observed that "Where the Indian Government is granting concessions or where the Indian tax-payer's money is being devoted to the stimulation of an enterprise, it is reasonable that special stress should be laid on the Indian character of the companies thus favoured."

"In all such cases we think it would be reasonable to insist that companies enjoying such concessions should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian directors on the board and reasonable facilities should be offered for the training of Indian apprentices."

The External Capital Committee narrowed the scope of the recommendation of the Fiscal Commission, and laid down the following guiding principles: "Where definite pecuniary assistance such as a bounty is granted to any particular undertaking we consider that discrimination is feasible, and we agree with the Fiscal Commission and the legislature that no such assistance should be granted to any company, firm or person not already engaged in that industry in India, unless,

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(1) Cf. Industrial Policy of India, by C. N. Vakil and M. C. Munshi, on which the remaining portion of this lecture is based.

(1) reasonable facilities are granted for the training of Indians, and

(2) in the case of a public company, unless—

(a) it has been founded and registered under the Indian Companies Act, 1913;

(b) it has a share capital the amount of which is expressed in the memorandum of Association in rupees;

(c) such proportion of the Directors as Government may prescribe consists of Indians.”

It can be easily seen that these recommendations are quite insufficient to achieve the avowed goal. We have fully realised that in practice phrases like “reasonable facilities” have little significance. The conditions that a company should be registered under the Indian Companies Act and that its capital should be expressed in rupees are also of little consequence in safeguarding the national outlook of the concern.

As regards the proportion of Directors it is obvious that Government cannot demand a majority of Indian directors when most of the shares are held by foreigners. Under such conditions Government will demand one or two Indian Directors only. Such directors of course will have no effective voice in the management. Besides under the managing agency system the directors do not possess any important power. Even to-day we find several Indians on the Board of foreign concerns, but they have no power to give a national outlook to the concerns.

One important limitation in respect of the recommendations of the External Capital Committee is that the above conditions are to be sought only in cases where direct pecuniary assistance either in the form of a bounty or a subsidy is to be granted and not where protection is granted in the form of tariff walls.

In their report<sup>1</sup> on the Paper Industry the Tariff Board made the following observations:—“Apart from practical considerations there can in reality be no distinction in this regard between industries receiving assistance in the shape of bounties or subsidies and those which are protected by means of import duties. It is, therefore, important from the national point of view, that in the case of every industry which claims protection this aspect of the case should be fully examined.”<sup>2</sup>

Taking their stand on this recommendation the Legislative Assembly in the winter session of 1932, while dealing with a pro-

(1) In 1931.

(2) Para. 104 of the Report.

posal for tariff protection to the paper industry succeeded in getting accepted the view that the same conditions should apply to grants of tariff protection as to bounties and subsidies.

The proposed constitutional arrangement limits the rights thus enjoyed by the Indian Legislature at present in the matter of the development of industries on national lines. The proposals are summarised in paragraphs 122 to 124 of the White Paper. We shall however refer to the proceedings of the second and third Round Table Conference to understand more fully the significance of these proposals. We shall in the first place reproduce the relevant passages before commenting on them.

“The committee are of opinion that no subject of the Crown who may be ordinarily resident or carrying on trade or business in British India, should be subjected to any disability or discrimination, legislative or administrative by reason of taxation, the holding of property, the carrying on of any profession trade or business or in respect of residence or travel. The expression “subject” must here be understood as indicating firms, companies, and corporations carrying on business within the area of the Federation.”<sup>1</sup>

“It should however be made clear that bounties or subsidies if offered, would be available to all who are willing to comply with such conditions as may be prescribed. The principle should be a fair field and no favour. . . . . Where the larger business makes use of unfair methods of competition, the general law should be sufficient to deal with it, but many members of the Committee were impressed with the danger of admitting a claim to legislate, not for the purpose of regulating unfair competition generally, but of destroying in a particular case the competitive power of a large industry in order to promote the interests of a small one.”<sup>2</sup>

“It is also plain that where the Governor-General or the Provincial Governor is satisfied that the proposed legislation, though possibly not on the face of it discriminatory, nevertheless will be discriminatory in fact, he will be called upon in virtue of his special obligations in relation to minorities, to consider whether it is not his duty to refuse his assent to the Bill or to reserve it for the signification of His Majesty’s pleasure.”<sup>3</sup>

It was decided by the Commercial Safeguards Committee of the third R. T. C. that as safeguards in general are to be “special

(1) Fourth Report, Federal Structure Committee (Second R.T.C. proceedings, para. 13).

(2) *Ibid.*, para. 21.

(3) *Ibid.*, para. 23.

responsibilities", the Governor-General or Governor as the case may be, would be entitled in the last resort to differ from the proposals of his Ministry if he felt that these involved unfair discrimination."<sup>1</sup>

It was further agreed "that no subject of His Majesty domiciled in the United Kingdom and no company registered in the U. K. should be subjected to any disability or discriminations to which subjects of His Majesty domiciled in India or companies registered in India are not subjected in the United Kingdom."<sup>2</sup>

"The Committee agreed that bounties or subsidies should be available, without distinction, to all firms or individuals engaged in a particular trade or industry at the time the enactment authorising them is passed, but that in regard to companies entering the field after that date the Government should be at liberty to impose the conditions of eligibility recommended by the External Capital Committee. It would, of course, be a question of fact whether the purpose of the subsidy or the imposition of particular conditions, though not discriminatory in form was, in fact intended to penalise particular interests; and the Governor-General or Governor, or the Courts, as the case may be, would have to form a judgment on this question in deciding whether a proposed measure was or was not discriminatory."

The effect of these provisions is that the British people must be treated as nationals of India in connection with all steps, legislative or administrative intended to develop industries in this country. If you think of anything in the nature of a bill for the reservation of coastal trade to Indian shipping, it would be treated as discrimination against the British. If you want to give a bounty to help any industry, you must give it equally to Indians and Britishers, otherwise it would be discrimination. If you want to help industries by means of special railway rates or other forms of assistance, you cannot reserve such concessions only to Indians because it will then be discrimination against the British. In brief, either with reference to existing industries or future ones, discrimination in favour of the nationals of the country will be interpreted to mean discrimination against the British, if British interests are at stake. On the other hand, discrimination against third parties and in favour of British trade and industry will be welcome. The differential rates of duty imposed in the protective schemes with reference to cotton and steel, are illustrations of discrimination in favour of the British. The Ottawa

(1) Para. 2 of the Report.

(2) Para. 3 of the Report.

Agreement has legalised not only this arrangement, but has carried forward the principle of discrimination in favour of British goods as against non-Empire goods. So long as this continues, it will be possible for British trade and industry to increase their vested interests in this country. The existence of British economic interests in this country has been responsible for the political device of commercial and financial safeguards, which in substance take away with one hand the political power which is supposed to be given to the Federal Government by the other. It is thus a vicious circle intended to perpetuate the present position. The situation will in fact be worse than now, because even those opportunities which are now existing for giving an impetus to an Indian industry as against a British one, will disappear henceforth under this statutory provision. The advantages which British interests have been enjoying in this country hitherto, partly because of their political connection, will hereafter be a matter of right, and therefore capable of unlimited expansion guaranteed by statutory safeguards. With the partnership that is thus going to be forced on this country for its economic development, the future national production must per force be divided between the partners. And as in all partnerships, the dominant partner will get more than his due share. India may think in future of economic progress in those other spheres which have not hitherto been taken up because of obvious difficulties. But the people of India cannot easily think of those productive activities which are already under the control of the British. In view of the comparative backwardness of this country in technical knowledge, in industrial and commercial organisation, and even in capital resources, we should not be surprised if we find that the tentacles of the British partners will spread far and wide. In view of this, the only conclusion that we can arrive at is that the impetus for further production by the people of the country will be limited in its scope; that even if a larger production comes about in due course, it will not be wholly available to the people of the country because a substantial share will have to be paid to the British partners. From the point of view of increasing the standard of life of the people of this country, this arrangement is therefore not hopeful.

The principle of reciprocity embodied in the Commercial Safeguard sounds very grand, but whereas it gives all that the British demand in India, it gives nothing in return, but words. What the people of India desire is not opportunity for industry in the U. K., which if theoretically possible, is in practice of no value. What they want, however, is adequate and natural

opportunities in their own country against the powerful vested interests of the ruling race. This new theory conveniently ignores the demand of the people for their natural rights in their own country, and offers a fictitious right six thousand miles away, on the absurd assumption that Indians who find it difficult to compete at home with Britishers, will be able to go and settle in the U. K. to compete with Britishers in their own home. We may admire the ingenuity of the authors of this formula, but its hollowness will not remain concealed for long. Not only is the new principle hollow from the point of view of the people of India, but it also prohibits the use of those methods which have been already put into operation under the existing constitution as mentioned above to advance the economic interests of the nationals of this country.

## VIII. TRANSPORT.

We need not emphasize the great importance of efficient and cheap transport services in modern countries in connection with the production and marketing of goods. Raw materials have to be transported from great distances to the places of manufacture; both agricultural and industrial products have to be sent to the centres of consumption. Schemes of economic development in a country cannot succeed, unless the transport facilities are both adequate and efficient, and are conducted in a manner most conducive to the national economic policy of the country. We shall consider the two main agencies of transport, roads and railways, from this point of view. The same remarks apply in general to the development of a mercantile marine.

### ROADS.

Excluding roads in municipal areas, roads in British India may be roughly divided into the following five classes:—

1. Roads wholly or mainly maintained from provincial revenues.
2. Roads maintained from local funds, *i.e.*, from funds of local boards or councils, with grants-in-aid from provincial revenues.
3. Roads maintained from local funds.
4. Roads maintained by minor local bodies.
5. Roads maintained by the villagers themselves.

The total road mileage in British India is 200 thousand miles. Out of this only 47 thousand miles come under the first category, the rest coming under the second or the third.

The expenditure on roads from provincial and local sources is less than five annas per head of population. The figure of expenditure shows an increase in recent years, but this is chiefly due to higher prices and greater cost of maintenance due to motor traffic.

### ADMINISTRATION OF ROADS.

Roads in the nine major provinces are provincial subjects and in all except Assam are transferred subjects. "Provincial" roads are ordinarily maintained through the agency of the Public Works Department. "Local" roads are maintained by District

Councils or Boards, which receive payment from provincial revenues for this purpose. Eighty per cent. of the total mileage is administered by district councils.

The general defect of road administration is that the outlook of the controlling authorities is generally local and narrow. The development of motor transport in recent times has led to the creation of road boards to evolve a provincial road policy. It is to be expected that a new system which will link up the broken and disconnected roads into a continuous whole will gradually come into existence. The condition of village roads on the one hand, and the need for connecting them with main roads on the other, are matters which will require careful planning and a large amount of expenditure.

We have already seen that the financial resources of the Provinces for schemes of improvement will be very limited. Recently there have been proposals to raise a large loan specially meant for the development of roads. This idea has been largely supported by associations interested in the sale of motor cars. There need be no objection for such a propaganda provided adequate steps are taken to see that the schemes of road development are devised primarily with a view to the requirements of the villagers and their trade, and not with a view to the convenience of those interested in the trade of motor cars. At the same time, it would be necessary to see that the expenditure on construction and maintenance is properly scrutinised and supervised.

#### RAILWAYS.

Railway construction in the country was begun under a system of guaranteed interest to companies registered in England. Till the end of the last century, this involved a net loss to the Indian Treasury. Since the beginning of this century, there has been a change for the better and the railways have been earning enough to pay for the interest charges on the capital spent in construction. Contracts with railway companies which provided for various privileges guaranteed to them, also provided that after a lapse of certain periods, the railways would become state property. The State has to buy out the railway and pay for it by annuities. Most of the railways have already become state property accordingly and others will become state property in due course. Some of them however, are still in the charge of companies for the purpose of management. A beginning in the direction of state management, however, has been made, and the future of the Indian railways is that they will be state property



managed by the state. The control of the railway administration and policy is vested in the hands of the Commerce Member to Government of India. The Railway Board is an expert body which controls and supervises railway administration and policy in India under the direction of the Commerce Member. During recent years, the railway budget has been separated from the general budget and is presented to the Assembly a few weeks before the general budget. The object in doing so has been that railway finance should be considered on commercial principles, which is not the case with reference to the general budget. After providing for the necessary current expenditure and the interest on debt due to railways, the scheme provides for depreciation and reserve funds and the surplus thereafter is shared with the general budget on an agreed plan. While allowing the application of commercial principles to railway finance, this system is supposed to remove uncertain elements due to railway finance from the general budget. As we know from recent budgets, the receipts from railways have fallen considerably and the railway department has been forced to draw upon the depreciation fund to be able to carry on.

Large amounts of capital expenditure are usually incurred on railway development<sup>1</sup> and the current expenditure<sup>2</sup> on maintenance and repairs is also very heavy. Numerous small and big industries have the opportunity to supply the materials required for this purpose. The principle that by following the policy of indigenous purchase, industries dependent on railways should be encouraged, has been accepted in theory, but there is no doubt that there is great room for improvement in this direction.

The railways employ a large number of people, skilled and unskilled in their services. Besides, the number for ordinary employment for certain kinds of technical work, the railways are in a position to train qualified Indians for responsible technical work. The policy of Indianisation, if carried to its logical conclusion in connection with railway service, would go a long way to give an illustration to other employers in the country in the same direction.

The most important point of view from which, however, the railway policy should be considered is its relation to trade and industry. The Railway Board lays down certain maximum and

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(1) The total capital at charge on 1st April, 1932, was 876 crores of rupees.

(2) The railway budget amounts to about a hundred crores, which is larger than the proposed Federal Budget.

minimum rates, within which the companies are free to vary their rates. In spite of the fact however that the state is the real or ultimate owner of the railways in the country, the tradition due to the fact that most railways have been managed as separate independent units in the past, somehow continues. This results in unnecessary competition and independent outlook on the part of each separate line. The effort to make each separate line paying, comes in the way of that co-ordination of railway traffic and railway policy, which is desirable in the interests of the country. Long distance traffic which has to pass over several lines is subject to different rates over different distances of its entire journey. Such a thing would be unthinkable if the Railway Board and those responsible for its policy realised that the railways were a national concern requiring a unified policy calculated to encourage trade and industry. In doing so, the railways need not incur financial loss; in fact, the encouragement of trade and industry on well conceived lines should ultimately result in larger receipts to the railways themselves. But the narrow outlook of the railways prevents them from having a broad vision regarding the trade and industry of the country as a whole, thus resulting in many paradoxical situations with reference to railway rates. The Tariff Board in its investigations has often complained of the incidence of railway rates on this or that industry as being unduly heavy. The policy of protection to Indian industries can be pushed forward without undue burdens to anybody, if the railway policy were brought in line with the protective policy. There are instances of railway rates being used in other countries as a sort of bounty for export or for other encouragement of certain industries. Not to talk of such extra concessions, even those reasonable arrangements which would give an impetus to the growth of different trades and industries, have been absent so far, because of the want of co-ordination between the railway policy and the general economic policy of the country.

So far as the future is concerned, railways have been classified as federal, which means that the federal budget will be credited with the net contribution available from the railway budget as now. For example, barring the last one or two years, the railways have yielded an average profit of nearly 10 crores a year. This has accrued after the interest on railway debt has been paid and after a large depreciation fund has been built up. It may also be added that this record was achieved during a period of falling prices and general depression. When conditions are normal, we are bound to have better results. Though we

have the classification of Federal and Central subjects under the new constitution, this receipt which ought legitimately to be credited to Central revenues is going to be credited to Federal revenues. This is unfair. This remark is due to the fact that the Indian States are going to keep to themselves the profits which they earn from the railways in their territories, which are in most cases their own property. For certain purposes of policy and administration, we shall have Federal Legislation as applicable to all railways. But this will be no more in effect than what the Railway Board does now with reference to the control of Indian State railways. Not only that, there has been a claim on the part of the states that because certain large railway companies, like the B. B. & C. I., cross through the territory of Indian States, the States should be allowed a certain compensation on the earnings of these railways. Such a claim has obviously no chance of being accepted, but the fact remains that the Indian State Railways will continue not only to be the property of the separate States, but will continue also to be exempt from any contribution to the Federal Government. This arrangement is obviously unfair to British India. Besides, in practice, we may find differences in policy for encouraging different trades and industries in which the States may be interested.

We have said enough to appreciate the position that the railway system in this country is a huge national concern from the point of view of the financial stake involved, the number of people employed, and its immense capacity to help the trade and industry of the country. Besides, there are great possibilities of development of the railway system by internal re-organisation on the one hand and by expansion of railway mileage on the other. This is thus an economic activity of the Indian State, run on commercial principles and thus can be an important instrument of a new economic policy to help the production of the country. But the vested interests of the existing managers of different railway lines and the traditions of the Railway Board, combined with the outlook of those European concerns, which have a good deal to do with railway policy suitable for themselves—all these have as if were combined in proposing an arrangement by which it will be possible to carry on railway administration and policy more or less as now. The proposal is that a Statutory Railway Board should be created by Act of Parliament, and that as in other matters, the federal legislature will have the right to control the general railway policy, but the administration will be with the Statutory Board, which will be independent of the Legislature. This has been justified on the ground that the railways

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should be run on commercial principles, and be above political interference. Granting the position for the sake of argument, would not the same object be served by asking the Federal Legislature to create a Railway Board by its own statute? The Reserve Bank of India, whose creation is a condition precedent to the inauguration of the Federation, is to be brought into being by an Act of the present Indian Legislature. It passes comprehension why the status of the future Federal Legislature should be reduced by creating a body under the Constitution Act, a body which will administer a huge national concern, capable of advancing the economic life of the country, but which will not be responsible or bound to carry out the railway policy as laid down by the Legislature. Devoid of the power to enforce its will in this most important branch of economic life, the Legislature may find that its wishes in other branches of economic life are thwarted by a non-national outlook of the new Railway Board. If this proposal materialises, the hollowness of the proposed constitution will be completely exposed. The theory of a safeguard could not be pursued with reference to the Railway Board and hence the proposed statutory arrangement. But whereas the commercial and financial safeguards are meant to protect British interests at the discretion of the Viceroy, the proposed Statutory Board for railways will declare to the world in anticipation, the incompetence of the future Federal Legislature to deal with this domestic problem, and at the same time take away from their hands the possibility of using the railways as an instrument of forward economic policy in national interests.

The conclusions at which we arrive are that there is an unlimited scope for the development of roads in the country, but that the finances of the Provinces may not be adequate to meet the necessary expenditure, and a loan may be necessary.

Regarding railway policy and administration, it is not likely that the railways will serve that part as an instrument of national economic policy, which they do in many other countries.

## IX. THE CREDIT OF INDIA.

Regarding the credit of India and the financial machinery on which it will be based, we should be, in the first place, clear about the exact arrangements proposed. So far as the raising of revenue and incurring of expenditure is concerned, the Indian Finance Minister of the future Federal Ministry will be responsible to the Legislature. He will work, however, under peculiar and even powerful restrictions. So far as the sources of revenue are concerned, they will be subject to the scheme of federal finance, which we have already discussed. So far as the expenditure is concerned, there will be certain items which will be declared by statute to be non-votable, that is, those charges which are required for the Reserved Departments and for the service of the debt. Though the Minister may use his influence to press for reduction in the expenditure on those charges, he cannot count upon the support of the legislature because the legislature will have no voice in the matter. These charges will constitute about 80 per cent. of the Federal Budget.

### FINANCIAL ADVISER.

Apart from this, it has been laid down that nothing should be done which may come in the way of the credit of India in the money markets of the world. In the matter of budgetary arrangements as well as of raising public loans, the Governor-General will be charged with a special responsibility, giving him powers to intervene if in his opinion methods are being pursued which would seriously prejudice the credit of India in the money markets of the world. Regarding borrowing, the Percy Committee's recommendations in paragraphs 117 and 118 of the Report,<sup>1</sup> have been endorsed. In connection with the pre-federation debt, it has been laid down that they should continue to be secured "on the revenues of India". The future federal loans however, shall be secured on the revenues of the Federal Government only. In order that the Governor-General may be in a position to discharge his duties or special responsibility in this connection, he will have the services of a special adviser to be called the Financial Adviser. This officer will not have any executive power; he will be appointed by the Governor-General and be responsible to him. It has been conceded that after the

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(1) These relate to the relations of the Provinces and the Federal Government in the matter of raising loans.

first appointment, the Governor-General will consult with his Minister in making appointments to this post. The services of this officer will, of course, be available both to the ministry and to the Governor-General. In other words, the decision regarding the circumstances under which the special responsibility of the Governor-General should be exercised, will depend on the recommendation of the Financial Adviser, who will be in close touch with the work of the Finance Minister and his Department. In fact, in view of the reserve power thus vested in the Adviser, his advice will always be in effect a mandate to the Minister in charge.

#### THE RESERVE BANK OF INDIA.

Another important departure from the existing arrangements will take place in the matter of the management of currency and exchange. These are at present managed by the Finance Department. In other countries, the Central Bank is entrusted with this work. The Central Bank, however, works under a Charter or under some authority granted by the Legislature, and in times of emergency, the Finance Minister and the Legislature exercise executive and legislative control over the Central Bank. Such arrangements in other countries on the one hand enable the Central Bank to do its day to day technical but important work without interference from the Government of the day, which in most countries changes its colour from time to time according to the political party which happens to be in power at the moment. In times of emergency, however, the Bank and the Government work in the closest co-operation in national interests and such situations are usually by tradition treated as being above party politics. This is as it should be, because, the Central Bank in modern countries is a bankers' bank and controls the whole credit arrangement of the country besides being in charge of currency and exchange. With the development of modern credit instruments, we have a situation by which what is known as bank currency or deposit currency has grown to such proportions that it is of greater importance than the ordinary currency media, namely, paper notes and coins. The relation of the two is highly complicated and varies according to the conditions and practice in different countries, but the combined effect of both on prices and therefore on the economic life of the country is undoubted and great. The institution which by its daily transactions is in a position to affect the economic life of the people in general for good or bad, should naturally be run on known principles of finance and should not be subject to political pre-

judice or changing policies, which are reflected in the changing political parties which hold power in turn in modern democratic Governments.

The control of currency and exchange by the Government of India in this country, including the day to day management by the Currency Department, has been a subject of severe criticism. They have found it convenient to do so, however, because of two important reasons, namely, that having to pay large amounts by way of English charges every year, the Government of India are the largest operators in the exchange market, and secondly, the currency policy because of this reason and also because of the close interests of the London money market, has been influenced by the Bank of England and the City of London through the Secretary of State of India. So long as there was no bank which could be charged with these important functions, it was easier, in practice to carry out the wishes of the Bank of England and the City of London through the Finance Department of the Government of India, which was bound to take the orders of the Secretary of State for India.

The need for an independent Central Bank, known in this country as a reserve bank, has been long felt on the one hand, and on the other the weakness of the Government management of currency and exchange has been exposed the most since the war. The creation of the Imperial Bank of India simultaneously with the inauguration of the Montague reforms, was a step in the direction of creating some sort of bankers' bank which would at the same time act as bankers to the Government. The management of currency and exchange was, however, not handed over to the Imperial Bank of India, and therefore the Imperial Bank could not develop into that kind of Central Bank which we have in other countries. The Central Bank in most countries occupies not only the position of control over the internal credit and currency arrangement, but it is the only authoritative means for international co-operation in monetary matters. In view of the monetary chaos into which the world has now fallen, whatever solution that may be arrived at in future, will depend on the co-operation of the Central Banks of the world. The Reserve Bank of India therefore has not only a function to perform within, but has an important responsibility to discharge with reference to the world outside. With the immense stake of India in international trade and finance, the Reserve Bank of India could play an important part in such international affairs. Whereas the creation of a Reserve Bank for India is thus eminently

desirable in principle, it should at the same time be an independent organ of Federal India, capable of holding its own as a representative national institution of Federal India in international councils, and not merely be an appendage of the Bank of England. It has been laid down that the Reserve Bank should be brought into existence prior to the inauguration of the Federal Constitution, that it should be on sure foundations and free from any political influence. It is a sound principle that the changing political parties in this country which may be in power in the Federal Government should not try to influence this bank according to their prejudices but that they should deal with it from the national point of view. It is an unsound principle on the other hand that while arranging that the Reserve Bank is free from party politics within the country, it is allowed to be subject to outside influences, such as that of the Bank of England, because even though it may be outwardly an economic relation, the subordination of the policy of the Central Bank of one country by that of another must be characterised as a political influence. Among the sure foundations on which the Reserve Bank is to be built we are told that we should have a balanced budget, that the existing short term debt both in England and in India should be substantially reduced, that adequate reserves should be accumulated and that our normal export surplus should be restored. Some of these things are obviously beyond the control of the Government, but the proposed policy commits the Government of India to pursue methods which will bring about these ends. For example, if we take the recent budget of the Government of India as an illustration of the policy for a balanced budget, we shall see how this may work. Emergency taxation and other emergency measures may become a permanent feature in order that some of these conditions may be fulfilled. To what extent these difficult conditions can be realised, the future alone will show.

#### THE BRITISH INVESTOR.

In all these proposals, a good deal has been said about the credit of India in the money markets of the world by which, however, it is meant that the foreign investor should have confidence in the future financial stability of this country. As the principal foreign investors in this country either in public loans or in private enterprise are British investors, it means that the confidence of the British investor must be canvassed in our financial arrangements. And though the talk is with reference to the cre-



dit in the money markets of the world, we have arrangements by which the financial policy of the country may be dictated and controlled by the Bank of England and the British Government. The constitution of the proposed Reserve Bank will reveal some of these features, the special responsibility of the Viceroy and the existence of the Financial Adviser will be the means through which this control will be exercised. Besides, the previous sanction of the Governor-General to the introduction of any bill to amend the Paper Currency or Coinage Acts will be required; the same condition will apply to any provision empowering the Reserve Bank to manage currency and exchange. This means that in effect, the future Federal Legislature of this country cannot make any change either regarding the standard of value or regarding the unit of value to be current in this country without the consent of the Governor-General and his Financial Adviser. If we have a sterling standard now and if we desire a gold standard to-morrow, the option will not be ours. The gold value of the rupee is at present  $3\frac{3}{40}$ th of the changing gold value of the sterling. When the gold value of the sterling is fixed in future,  $3\frac{3}{40}$ th of that will automatically be the gold value of the rupee. If any legislature wants that the gold value of the rupee should be fixed according to the economic requirements and conditions of this country alone, it shall not have any power to do so. In the matter of raising loans, the future Indian Finance Minister will naturally try to obtain more funds from within the country as far as possible; there are, however, bound to be occasions when foreign loans may be necessary. Such foreign loans under the circumstances must be British; the amount of such loans, the time when they should be floated, the terms to be offered and the procedure to be followed, will have to be laid down according to the wishes of the Bank of England, because any departure from its wishes will involve a want of confidence in the credit policy of this country, at which the Financial Adviser will raise his hands. The conclusion is obvious that in all financial problems of any importance, of currency standard, of currency ratio, of raising external loans, of budgetary arrangements, the same methods as are now followed by the existing Government of India under the control of the Secretary of State and British financial interests, will be followed with one difference. Whereas this control is now a matter of convention and subject to criticism, in future such control will be a matter of statutory arrangement with a constitutional answer to any criticism, namely, that any such control is exercised by right, according to statute, obviously in the best interests of India.

The policy of the British Government in this country in most of these matters has been very often severely criticised as being Imperial and non-Indian, and even anti-Indian on occasions. The military expenditure of India has been admittedly meant partly at least for Imperial defence. This will be a Reserved Department and the same Imperial expenditure shall continue. In spite of the declarations of Finance Members since the days of Wilson, regarding the desirability of raising loans in this country and regarding the economic evils attendant on external loans, adequate steps for internal borrowing have not been taken. During the war, when the London money market could not supply funds to this country, some steps were taken, and the people of India rose to the occasion. The Banking Committees have written almost a library on the subject of increasing banking facilities and of developing the investment habit in the country. The recent unhoarding of huge amounts of gold in this country, is an eloquent testimony to the existence of dormant capital resources in the country, waiting to be tapped if the right policy is followed; what is wanted therefore, is that the financial arrangements in the country shall be such that the Indian investor will be able to understand and have confidence in the same. Instead of seeking this understanding and confidence within, we are asked to seek confidence without. If we create more understanding and confidence with the investing public in this country, we shall have in the not distant future possibilities of removing the shackles of the foreign investor; if on the contrary we have to concentrate more on the feelings of the foreign investor, we shall continue to welcome these shackles for ever. The control of financial policy is the keynote to the independence of modern states. With all the paraphernalia of democratic bodies in this country that we are likely to witness, we shall thus have in practice a retrograde position, because in spite of having the show of an increase in power to the representatives of the people, these representatives will be faced with a situation that what they complained about in the past cannot even be complained of in the future, because it will be done in the name of the Constitution Act. The humour of the situation is that though British publicists have in the past condemned the criticism levelled against their financial policy in this country, the proposed arrangements are the greatest justification of this criticism, namely, that British financial policy in this country is concerned more with Imperial considerations and with the feelings of the British investor, than with the interests of the Indian taxpayer or with the economic status and progress of this country.

## X. ECONOMIC OUTLOOK IN FEDERAL INDIA.

### THE CONSTITUTIONAL POSITION.

The new constitution will be peculiar in many respects and will have no parallel in history. It has been described as a federation, and the word "federation" has been generally used in connection with it. But if we consider the relations between the provincial units and the Indian States, which will come together for certain common purposes only, we shall find that they are not on a footing of equality, and that the act of federating is confined only to those functions which the Indian States may transfer to the new constitution; on the other hand, there are many features which go to show that the provincial units will be subordinate to the centre, more or less as now in spite of the fiction of transferring power to the Crown and creating the Provinces as separate states. Though it may be said that the Indian States will, by refusing to take part in purely British Indian questions, not interfere in the sphere of provincial activities, it is impossible in practice to draw a line between the activities of the Central Government in which the Indian States will not have an effective voice directly or indirectly.

From the point of view of another phrase, which has been frequently used in connection with the Indian Constitution, namely, Dominion status, we find that the proposed constitution cannot be described to have that status. This phrase is used to convey a kind of political constitution in which the British Dominions, while acknowledging the allegiance of the Crown, have an Executive responsible to the Legislature, elected by their own people, more or less on the lines of the British House of Commons. Besides, there is no limitation in theory or practice to the powers of the Dominion Government thus formed, and if such a Government acts as a member of the British commonwealth for certain common purposes, it does so entirely out of its own free will, and because it feels or is convinced that it is in its interest to do so.

There is no accepted phrase in political theory or practice, which can be applied to the Indian Constitution of the future, because no effort has been made to conform to any such pre-conceived plan, though the forms of a Federal Constitution are

going to be adopted. The effort has essentially been to arrive at a compromise based on the existing administrative and political machinery. In order to show some gradual advance towards self-government, there will be legislative bodies in the provinces and in the centre, elected on a limited franchise. The selection of ministers out of the legislature will also conform outwardly to the methods of modern parliamentary institutions. In theory the responsibility of the Executive to the Legislature will be paraded, in practice we shall find that there are two powerful forces which will work in the opposite direction. On the one hand, the Legislature will be composed of a variety of heterogeneous groups, without a common aim or a common policy, each group by the very nature of its existence, having to think in terms of the interests which it is supposed to represent. The other forces will be represented by the Governor or the Governor-General, as the case may be, who with his immense reserve power, unlimited patronage, and the existence of a European group in the Legislature, will be in a position to see that the progress towards self-government in India does not interfere with British interests. Instead of developing that conscious desire to form coherent parties to carry out certain well-defined national policies, we shall find that the Executive will be composed of leaders of small groups in the Legislature, who together may form a working majority; and so long as each such leader can bring the voting strength necessary to keep the ministry in power, it will not be incumbent on him to give up his office.

Such a state of affairs will be generally true both of the Provinces as well as the Centre, with this exception that the sense of responsibility both of the Legislature and the Executive at the Centre will be substantially limited, and in this limited sphere, there will be new partners in the form of the representatives of the Indian States.

We have heard so much about the ideal of an Indian Federation, an ideal to which both the Indian representatives at the Round Table Conference and the British Delegation have vied with one another to show attachment. The representatives of Indian States have found themselves in the comfortable position of being wooed by two parties with unlimited opportunities to make the best of a bargain. If the Indian States have shown hesitation to join the Federation, they have done so either because they are ignorant of its implications or because they are fully alive to the same. The smaller states naturally hesitate because the share of the spoils will be very limited for them. The

larger states, on the other hand, have not been slow to realise the advantages that they will gain out of the proposed arrangement; they were presented with the choice of having a substantial share in the management of certain common affairs of India as a whole, coupled with comparative freedom from the shackles of the Political Department of the Government of India, for a nominal price. Barring a few honourable exceptions, the Indian princes are irresponsible rulers in as much as they have autocratic powers over their subjects. Barring extreme cases of mis-government in which the British Authorities have interfered, ordinarily there is no impetus for an Indian Prince to care for the interests of his subjects. From this long lethargy into which they have fallen, they have been suddenly awakened to a sense of responsibility, not for the welfare of their own subjects, but for the management of certain affairs common to India, which hitherto were under the sole control of the Government of India.

This peculiar situation has been made possible because of the theory that the Indian States owe allegiance to the Paramount Power represented by the Crown. The average Indian Prince, an autocrat with reference to his subjects, who was hitherto taught to behave in relation to an officer of the Political Department, known as the Resident, is suddenly made alive to the fact that he has a larger roll to play, if he joins the Indian Federation. The control which the Government of India were exercising over certain affairs of the States, will be transferred to the Federation not by the Government of India, but by the Indian States themselves, by means of certain formalities. And for the proper management of these common purposes, the Indian States are asked to send representatives to the Legislature with a weightage in their favour. This involves a change in the relations between the Resident and the Prince. The Resident will still be there representing the Political Department, which will be in the exclusive charge of the Governor-General as Viceroy. But the Resident will no longer be a super-autocrat; he will probably be reduced to the position of a whip canvassing the votes of the State for safeguarding British interests whenever they are supposed to be in jeopardy. The special responsibility which is to be imposed on the Governor-General regarding commercial discrimination and the credit of India, will be carried out in practice in the first instance, not so much by the use of the reserve powers, but preferably by a policy of give and take, and the large block of the representatives of the Indian States will find that they have much to get in return for what they can give without sacrificing their own interests.

Considered from these points of view, on the one hand by their very nature, representatives of Indian States will form a conservative block not in sympathy with the progressive ideals and methods of the representatives of British India. The possibilities, however, of the latter reacting favourably on the former would have been great, had there been an atmosphere of free exchange of views with a full sense of responsibility. But with the limited powers which the Federal Legislature is to get, and with the freedom of the States limited by their allegiance to the Paramount Power as represented by the Political Department we shall find that this large element in the new Legislature will be a block to progress, if not anything worse.

#### ECONOMIC CONSEQUENCES.

The phrase "Economic Consequences" implies the possibilities of certain effects from known causes, effects which can be more or less ascertained. As a rule, economic effects or consequences of a given situation are presented in a statistical form to give exactness to a particular phenomenon. Viewed from this point of view, when one is asked to think of economic consequences of the proposed constitution, one may be led to believe that it may be possible to trace effects of the proposed constitution in different economic spheres in statistical terms. I do not think that it is possible to do so nor is it intended, though, the title of this series of lectures is liable to that construction. The future alone, in terms of actual facts which may take place, will reveal the extent to which the forecasts of general tendencies that we may make now, will be fulfilled or falsified. Under the circumstances, the only thing that we can do at present is to take note of the existing economic facts in the country, and try to visualise how far the new constitutional arrangements are likely to create new economic forces, bringing about economic possibilities or changes for good or bad. And in trying to attempt such a general forecast, we can apply the chief economic test that we have already laid down regarding the soundness of the constitution, whether we see possibilities of a substantial increase of the national dividend available to the nationals of the country. Figures of production or of export and import trade, can be presented in a form to show that over certain periods, there has been an increase in the production of the country. Figures of such common necessities, as salt and kerosine, are taken to show that the total consumption per head of such commodities has increased under certain conditions. But in spite of such data, no one is able to deny the broad general fact that the average

standard of life of the masses of the people is very low in this country. The main reason for this can only be that there is not enough for all, which means that we should be able to increase the total production on the one hand and see that it is equitably distributed among the people on the other. If the figures of production in certain industries show some increase, but if at the same time we know that a good share of the increased production is not available to the people of the country, then from the point of view of national economic interests, the consequence is not desirable. If we get figures of common necessities like salt and kerosine to show that the volume of consumption has not gone down even in times of universal depression and low prices now prevailing, we need not gloat over the situation, because the fact remains that the masses of the people are drawing upon their reserves to keep to the minimum requirements of life, and hence the reserves are either substantially diminished or are being exhausted; and the continuation of the malady may result in a desperate situation. What is suggested by these observations is the fact that unless the real economic disease in this country is properly diagnosed, and unless the remedy is applied to the root cause, we are not likely to improve matters even though a bright spot of a temporary nature may be seen here and there in the complex economic life of the country. In other words, to pick out an occasional isolated economic phenomenon, and to argue as if we had achieved substantial economic advance in spite of obvious truth to the contrary, is to practice a sort of self-deception. The economic disease in the country which may be briefly described as the want of adequate production available to the nationals of the country, has been showing acute symptoms now and again. For example, the cry for the Indianisation of the Services and the struggle for jobs in government departments, reflects on the one hand the natural desire of the people to see as much as possible of the government expenditure on the administration returned to the people of the country, and on the other, it shows that some of the best brains in the country find a paucity of alternative suitable sources of employment. The Swadeshi movement is intended to give an impetus to the industries of the country by voluntary efforts on the part of the people even at some sacrifice in the belief that such an increase in production will ultimately react favourably on the whole economic life of the country. The official counterpart of this movement is the policy of discriminating protection by means of which a few industries have received protection in recent years. But the need for a larger production is so great and urgent, and its fulfilment has been

delayed for such a long period, that there is a natural impatience at anything that is calculated to hinder rapid and comprehensive progress in the desired direction. When the natural desire of the people to conserve national resources for national purposes with the assistance of the state, meets with strenuous and successful opposition, as in the case of the bill for the reservation of the coastal traffic, there is bound to be a feeling against those interests which come in the way of such progressive movements. Such action has been condemned as being discriminatory on the one hand and the failure of such action has led to the advocacy of more drastic economic weapons on the other. The boycott of British goods and the proposal for the repudiation of the public debt of India, owe their origin in the widespread resentment of the people due to the failure of their legitimate aspirations for so increasing the national production of the country that more will be available to the people themselves. Proposals for the control of the investment of foreign capital in this country, particularly, when such capital takes advantage of the tariff policy of the country, have also the same point of view. We find under the proposed constitution that restrictions on foreign investments or legislation of the type of the coastal reservation bill, will be treated as discrimination against British interests, and will be a matter in which the Governor-General's special responsibility to prevent such discrimination will be exercised. Talks regarding relief in the debt services have been set at rest by making the Debt Services a fixed charge on the revenues of India, not votable by the Legislature. The boycott of British goods has brought into existence emergency legislation and emergency powers in the form of Ordinances, making it impossible for the people either to advocate or to practise it. The Indianisation of the Services has been accepted in principle, but there have been many difficulties in practice, and the progress has been slow. With the protection of the Public Services as a special responsibility in the hands of the Viceroy and the Governors, and the Military Department as a reserved department, there is no reason to believe that the progress of Indianisation will be more rapid in future than in recent years. With the railways as state property, the State is the employer of the largest industrial and commercial venture in the country, and will set an example for good or bad, regarding the employment of Indians in its services. The Statutory Railway Board being not subject to the Legislature, must be taken to be a body which will not necessarily care either for Indianisation or for the development of Indian trade and industry



from the national point of view, but may be dominated by other considerations as in the past. The control of financial policy in the name of the credit of India will also be an obstacle to progressive national schemes. Economic policy in trade, industry and finance as well as railways will thus be controlled in essentials not by the Federal Legislature and Executive but by other parties.

These constitutional limitations on the economic progress of the country betray on the one hand an undue nervousness on the part of British interests, and give the greatest justification to the criticism of British economic policy in the country in the past as being not in the national interests of the country. Constitutional provisions to see that the same policy can be continued, and the same interests can be maintained and perpetuated, show the complete failure of the authorities to grasp the real economic disease in the country and the consequent inadequate attention to the root cause of the trouble. With the continuation of the present economic status of the country, in spite of democratic constitutional forms, we shall have highly expensive debating societies in the form of legislatures whose members will constantly see that their ideas cannot have the desired effects. Economic progress in the country in those directions in which it does not and will not conflict with British interests, will alone be possible, and as such avenues are few, we must be prepared to face the continuation of the present economic struggle in the country with one important difference. The difference will be that the clash of interests among the nationals of the country themselves, between provinces and provinces, between provinces and states, and between communities and communities, will be intensified on the one hand because of the constitutional arrangements, and on the other because of the fact that there will be so little for all to divide in order that each may have enough.