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4th Meeting.
(Draft).

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INDIAN ROUND TABLE CONFERENCE.
(Second Session).

FEDERAL FINANCE SUB-COMMITTEE.

STENOGRAPHIC NOTES of the Meeting of the
Sub-Committee held at St. James's Palace,
S.W.1., on Thursday, 1st October, 1931,
at 2.30 p.m.

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IRISH DELEGATIONS.

Lord Peel (Chairman)
Sir R. Hamilton

Also present:-

Sir R. Glancy
Mr. Baxter
Mr. Haig
Mr. F.P. Robinson
Mr. H.A.F. Rumbold

Secretaries.

Mr. Laithwaite
Mr. Pitze
Mr. Patrick
Mr. Lewis
Professor Coatman
Mr. Stopford
Mr. Garratt

INDIAN STATES DELEGATION.

Sir Akbar Hydari
Sir Mirza Iemal
Colonel Haksar
R.B. Krishnama Chari

Also present:-

Sir P. Pattani
Sir M. Mehta
Pandit Atal
Mr. G.N. Joshi
Mr. Singaravelu
Mr. Rushbrook Williams
Mr. Young
Mr. Thombare
Mr. Cadell

Secretaries.

Mr. M.S.A. Hydari
Mr. Madhava Rao

Secretariat-General,
St. James's Palace

BRITISH INDIA DELEGATION.

Sir Maneckjee Dadabhoy
Mr. Iyengar
Sir Sayed Sultan Ahmed
Dr. Shafa'at Ahmad Khan
Sir C.E. Wood

Secretaries.

Mr. Latifi
Mr. Bajpai
Mr. Rama Rau

SECRETARIAT-GENERAL.

Mr. Carter (Secretary-General)
Mr. Anderson
Mr. Sladen

THE CHAIRMAN: Gentlemen, I believe we thought that when we met this afternoon the representatives of British India were going to make a statement of their views on these difficult matters connected with the States which we have been discussing during the last day or two, but I now understand that the representatives of British India are not quite ready to do that. Is not that so?

MR. IYENGAR: Yes.

THE CHAIRMAN: And I understand that they would prefer to make their statement tomorrow morning.

MR. IYENGAR: Yes. We have discussed the whole matter, Mr. Chairman, if I may say so, and we thought we would be well advised to come to certain specified conclusions which we might put forward as definite proposals from this side in respect of all that was urged on behalf of the Indian States Delegation. We considered that it might considerably shorten the discussion in respect of many of those disputed items if we put forward concretely what the present position, as we conceive it, is. We have just settled upon the main lines, and they are being drafted. Tomorrow we would be quite ready to put them forward as proposals which we consider to be perfectly fair having regard to all that was said on the other side, and then we could try to agree upon them. I think that would shorten the discussion. We are not quite ready yet, and therefore I would request you to allow us to reserve our statement until tomorrow.

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THE CHAIRMAN: I am very glad that you have reached conclusions, and I am also very glad to hear that those conclusions are reasonable. In that case we might this afternoon, in order not to lose time, proceed with questions 9 and 10.

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MR. IYENGAR: From 7 to 10 are really covered by the proposals.

COLONEL HAKSAR: The questions that we have not yet discussed are 11, 12 and 13.

THE CHAIRMAN: Question 11 is:

"Should the Federal Government have any control over provincial borrowings?"

MR. IYENGAR: That is not covered. We can go on with 11, 12 and 13.

THE CHAIRMAN: Those are the numbers that I meant.

COLONEL HAKSAR: Tomorrow, after our friends have made their statements, I presume that you will go back to No. 2?

THE CHAIRMAN: After they have made their statements you may want to say something.

MR. KRISHNAMA CHARI: Certainly.

SIR M. DADABHOY: No. 2 is covered by the other ones to a certain extent, and the remarks which have been made, and which will be made upon this side, will apply to that.

COLONEL HAKSAR: I was only asking whether you did not feel the necessity, particularly after studying the statements that have been given to us, of covering the ground over again.

SIR M. DADABHOY: I agree with you there.

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COLONEL HAKSAR: I think that you too will want to discuss it.

SIR M. DADABHOY: Certainly.

COLONEL HAKSAR: Although I recognise that from my point of view No. 2 has a bearing upon No. 13, you may not see it from that point of view.

SIR M. DADABHOY: We shall be glad to hear you if you have any remarks to make.

MR. IYENGAR: It may have a bearing, and I do not deny it. They are all connected. The proposals that we have made with regard to taxation may, as we hope, induce you not to say anything which you may have to say upon No.2. We will see what happens with regard to that.

COLONEL HAKSAR: Then we will wait until your proposals are put forward.

MR. IYENGAR: Yes.

SIR M. ISMAIL: Before a discussion is commenced on other subjects, may I, with your permission, occupy a few minutes of the time of this Committee in reading out one or two paragraphs from a letter which His Highness the Maharaja of Mysore addressed to Lord Irwin in February last on the subject of the cash payments or tributes made by the States to the Government of India, and Lord Irwin's reply to that letter?

THE CHAIRMAN: Are they long?

SIR M. ISMAIL: They are very short. It will not take more than four or five minutes. His Highness the Maharaja of Mysore

writes:

"I have already expressed my own views on this aspect of the question of the tributes in letters addressed to Your Excellency's predecessors, Lord Chelmsford, and Lord Reading; and Your Excellency's own very generous action in the matter of the Mysore subsidy, taken on the occasion of your visit here in 1927, gives me the assurance that, in addressing Your Excellency, I am addressing a very strong friend and firm supporter of the cause of the States.

It may be thought that this is a question that should not be raised at a time of financial depression, but I need hardly stress the fact that the depression is affecting us proportionately as much as, if not more than, the Government of India, and will do so in an enhanced degree if that Government's escape from its difficulties is to be found in an increase of the customs duties.

At the same time, I feel extremely strongly, as I know do many others, that the removal of this anachronism ought not to be longer delayed, if federation is to be a success, and that one way to ensure such a success is to give freely as an act of grace this measure of justice long withheld."

Sir M. Dadabhoj will be interested to hear this:

"I need hardly say that we are all perfectly willing to pay our fair share of Imperial burdens, on whatever basis it may be assessed. What those of us who pay the tributes are anxious to secure is that we should be put in a position to discuss terms

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of federation with the other States and the Provinces as equal partners and not lying under the present stigma of inferiority.

I feel sure that Your Excellency's high statesmanship and human sympathy will recognize our point of view" --

SIR M. DADABHOY: We have always recognised that point of view.

SIR M. ISMAIL: --- "and that you will do your utmost to have the stigma entirely removed before you lay down the reins of your high office."

Lord Irwin's letter is a short one, but it is a very significant letter, which I shall beg the liberty of reading out to you. Lord Irwin writes:

"I am afraid I have taken some time to reply to Your Highness' letter of 25th February regarding the important matter of the payment of tribute by the Indian States. It is, as Your Highness will realise, a question on which I have wished to study fully the whole case.

I feel, however, that at this stage it is still difficult for me to give any detailed or precise reply to Your Highness' letter. A federal scheme would certainly seem to imply a new and more uniform distribution of burdens, and I am deeply gratified to learn that Your Highness is already prepared to co-operate upon such a basis. I think it is also true, as Your Highness suggests, that the general principles of federal finance will have to be worked

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out in consultation with the States, and made known to all concerned, before any State is called upon to make a final decision, as to whether or not it should adhere to the Federation. But the problems involved are so numerous and complicated, that I fear there is no chance of their examination being completed before my departure from India, nor should I, I think, be justified at this juncture in expressing any definite opinion as to how the principles, which have yet to be worked out, will affect the case of Your Highness' State. I may, however, express the confident hope that they will be such as to enable Mysore to enter the Federation on terms of honourable equality with other units."

This is all that we are asking for.

THE CHAIRMAN: Thank you. Who will open the discussion on No. 11:

"Should the Federal Government have any control over Provincial borrowings?"

Do you want to speak upon that, Sir M. Dadabhoy?

SIR M. DADABHOY: If you would like me to speak I will do so. I do not think that there will be much disagreement upon this subject. At present, under existing circumstances, the Central Government has been exercising, and has always exercised, control over provincial borrowings. Before any loans are required, the nature and the circumstances under which new borrowings are required by the provincial Governments are submitted for the approval and sanction of the

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Government of India, and except, as far as I understand, in special circumstances, that sanction is generally and freely accorded. There is a great deal to be said in favour of retaining the present system. When the Federal Government comes into power the responsibility of the provincial Governments will become far more onerous in my opinion, and it is essentially necessary that a measure of control over their borrowings should be kept. That measure of control is further necessary from another aspect. At just about the time when provincial Governments may be in need of finance, it may be possible that the Government of India also wants to carry out its financial programme. There may be a time when the provincial Governments will have at least to surrender to the Government of India, or to the Federal Government, for the time being, and postpone the carrying on of their loans, because if two loans come into the market simultaneously, at one and the same time, they are bound to overlap, and they are likely to affect each other.

THE CHAIRMAN: May I ask this: Are you applying this reasoning both to rupee loans and sterling loans as well?

SIR M. DADABHOY: Yes. I am first of all now referring to the rupee loan.

It is therefore necessary that control should be exercised. Now how this control is to be exercised when the Federal Government comes into power is also an important matter, and I think that in any determination of this question the Provinces should also be associated. The Provinces must have a voice; therefore it will be necessary to constitute, in my humble opinion, a Board for the purpose of deciding the question of Provincial borrowings and the question of on which Board the Provinces would have their representatives. But some sort of control is absolutely necessary in view of the divergent interests which the new form of Government would necessarily involve. I do not think there is much to be said. From the debate which took place the other day in the Committee I was able to gather that there was very little dissention, if any, on this point.

Then as regards the sterling loans, I think it will be all the greater reason ~

THE CHAIRMAN: With regard to rupee loans, subject to such leave as you have sketched out are you in favour of the Provinces raising their own rupee loans or the Government of India doing the general borrowing and re-lending?

SIR M. DADABHOY: If the Government of India does the general borrowing the Provinces will have far less difficulty in raising their loans than if they come themselves into the

market. There is no question about it in my opinion.

THE CHAIRMAN: You leave that to the Provinces?

SIR M. DADABHOY: I think you should leave it to the Provinces.

DR. SHAFI'AT AHMAD KHAN: Through whom - what channel?

SIR M. DADABHOY: Of course the Secretary of State.

That must be assumed at present for our arguments.

MR. IYENGAR: The Federal Government's Agent in London - put it like that.

SIR M. DADABHOY: Yes. It is premature to discuss that question at this stage.

THE CHAIRMAN: Quite right.

SIR M. DADABHOY: Therefore if it is done through the Government of India the Provinces will be in a better position; they will get better rates, they will get better credit, and they will have no difficulty.

THE CHAIRMAN: But you would like to leave it to the Provinces to choose, supposing they got sanction for the loan, whether they should raise it themselves or through the Government of India?

SIR M. DADABHOY: Yes, it must be left to them.

Then as regards the sterling loan, I think it is absolutely necessary that some sort of general power and control should be exercised, for the simple reason that if all the Provinces go into the market there may not be conflicting interests, they may not be able to raise money unless there is some sort of general control and they are regulated in the matter of interest rate etc. It would not be to the credit of India - I mean to the monetary credit of India - that loans in different parts of the Provinces should be raised

simultaneously at varying rates of interest. There should be uniformity. I quite confess there cannot always be a uniform rate, but as far as practicable it would much depend upon the exigencies of the particular Government which raised the loan. But taking everything into consideration, I think even in the case of sterling loans control is essentially necessary. How that control is to be exercised cannot be definitely decided at present unless the constitution of the Federal Government is fully probed.

MR. IYENGAR: I should like to know what the States have to say on this matter before we discuss it. So far as the British units are concerned the present arrangements have been very satisfactory. If they have any suggestions to make by reason of the fact that a new Federal Government is established we shall then be able to see where the difficulty is and meet it.

THE CHAIRMAN: I think we will hear Dr. Shafa'at.

MR. IYENGAR: I reserve my remarks.

THE CHAIRMAN: I was inviting Dr. Shafa'at to speak to us.

DR. SHAFAT AHMAD KHAN: My Lord, I have not very much to add to what has been said by Sir M. Dadabhoy. I would only like to emphasise two points: instead of using the word "control" I would have the word "coordination".

THE CHAIRMAN: Is that a more definite word, do you think?

DR. SHAFAT AHMAD KHAN: More definite in the sense that "control" implies the same amount of power by the Central Government as the provinces, and I visualise the Provinces as being completely autonomous. I should be inclined to agree

of the Simon Commission Report.

THE CHAIRMAN: Is it too long to read out?

DR. SHAFI'AT AHMAD KHAN: It is not long.

THE CHAIRMAN: Give us the substance of it.

DR. SHAFI'AT AHMAD KHAN: It is paragraph 311:

"The financial stability of Governments is, however, more often endangered by unwise or excessive borrowing than by overdrawing their accounts at the bank. In this connection the authors of the Reforms considered that, if the provinces were to have any real measure of independence in financial affairs, they must have some power to determine the purposes, the amount and the time of their borrowing programme. It would, however, be undesirable that they should act entirely independently. The present restrictions were therefore designed to give them as much freedom as seemed feasible. The need of some qualification of unrestricted liberty still exists. Clearly, it is desirable to prevent competition between the provinces themselves and between the provinces and the Central Government."

I entirely agree there must be some authority which will prevent what I may call out-throat competition between the Provinces and the Central Government. Co-ordination therefore I believe is absolutely essential. Nobody can deny this. But I would certainly not have control in the sense in which it is used.

"Further if India's credit is to be maintained, her borrowing power should not be overtaxed by excessive demands on either the internal or foreign capital

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markets, her loans should, save in exceptional circumstances, be for capital purposes and not to meet revenue deficits and care should be taken to ensure that adequate provision is made for redemption."

I entirely agree with all these conditions contained in Sir Walter Layton's report on the relationship of the Central Government to the Provinces.

"It is therefore proposed that there should be set up in India a Provincial Loan Council - and I recommend this - "consisting of the Finance Member of the Government of India and the Finance Ministers of the Provinces".

The Council would be an advisory body - I should like to emphasise the word "advisory" - and It should co-ordinate the borrowings of the various Provinces and link them with the programmes of the Central Government, but it would not possess any statutory power in the sense of compelling the Provinces to follow any definite line of policy.

THE CHAIRMAN: May I ask you a question?

DR. SHAFI'AT AHMAD KHAN: Yes.

THE CHAIRMAN: I want to be quite clear as to your distinction between "co-ordination" and "control". Of course, Sir Maneckji was discussing control. Just take a concrete case: supposing a Province wished to borrow; it would come before this body which you call a purely advisory body. It might quite well be, it might happen that it was really borrowing to meet a deficit; let us say.

DR. SHAFI'AT AHMAD KHAN: Well, that would not be allowed, because the standard regulations would not allow it.

THE CHAIRMAN: Wait one moment. You and others, we will say, on that body advise that it should not borrow.

DR. SHAFI'AT AHMAD KHAN: Yes.

THE CHAIRMAN: But if it is only advisory how do you stop the Province from borrowing? You say you are going to lay down a certain number of rules which will be binding on the Provinces; is that so?

DR. SHAFI'AT AHMAD KHAN: Well, I agree that some sort of power ultimately will have to remain. I follow the implications of your question, My Lord. Some sort of control will have to remain, I entirely agree; but what I do certainly object to is that detailed minute control which has been exercised in the past and which is being exercised now. I should leave every question as far as possible to be determined by this Council proposed in that note; and I should not like the Government of India to come down each time and every day upon the Provinces upon any question concerning loans.

THE CHAIRMAN: No; but can we get a little closer to see exactly where you differ, and what degree of liberty you would permit. In the case I put, supposing the advisory body advises against this loan, is that final? of course, if it is final, it amounts to control; the advisory body will decide that that loan is not to be raised. Is that sufficient for you? The Province says: "I really must find the money somehow; I have got a big revenue deficit and I want to raise so many lakhs of rupees", we will say. Could it go off on its own and then raise it?

DR. SHAFAT AHMAD KHAN: No My Lord; ultimately, of course, I entirely agree there would have to be control. My only point is that there should not be that immediate control which has been exercised in the past and is being exercised now.

THE CHAIRMAN: I follow that. You said your body was to be purely advisory. Well, it offers its advice, and, if its advice is not taken, does control come into it at any point or not?

DR. SHAFAT AHMAD KHAN: Control certainly does come in, and the Central Government will be obliged to come down on the Province and say: "You cannot have the loan".

THE CHAIRMAN: It will have to say that?

DR. SHAFAT AHMAD KHAN: Most certainly.

THE CHAIRMAN: It would not be the advisory body who would say this. Who would say it?

The Federal Government?

DR. SHAFI'AT AHMAD KHAN: Ultimately, yes.

THE CHAIRMAN: Do you think it ought to?

DR. SHAFI'AT AHMAD KHAN: I think the power of ultimately deciding must remain with the Central Government; but the power which is exercised now must be greatly relaxed.

THE CHAIRMAN: Your advisory body is a sort of buffer between the Province and the Central Government, is it, on whose advice probably the Federal Government, or whatever the authority is, would act?

DR. SHAFI'AT AHMAD KHAN: Yes, normally. I would like the Central Government to act only on the advice of this Council normally. I should not like the Central Government to go against the recommendations of this Council.

THE CHAIRMAN: Now there is a point. You have gone to Daniel and therefore I appeal to Daniel also about these standard regulations. Would you approve of standard regulations being laid down with regard to the raising of loans?

DR. SHAFI'AT AHMAD KHAN: Yes.

THE CHAIRMAN: I mean, for instance, regulations that there should always be, we will say, a sinking fund, or some regulations as to redemption.

DR. SHAFI'AT AHMAD KHAN: So far as regulations with regard to a sinking fund are concerned, I am very strong on that. There must be provisions for a sinking fund with regard to every loan that is made. That has been the practice in my Province; it has been the practice of the Government of the United Provinces all the time I

have been there.

THE CHAIRMAN: All Governments are not as wise as the Government of the United Provinces. I want to be clear: in addition to the advisory Council and the control of the Central Government, you would also lay down certain regulations which the Advisory Council would then have to follow, of course, if they were laid down by Central authority, as to the conditions under which loans should be made.

DR. SHAFI'AT AHMAD KHAN: The regulations, of course, would not be minute; they would deal with principles.

THE CHAIRMAN: Yes, they must be fairly widely drawn; but, if fairly widely drawn, you would not object?

DR. SHAFI'AT AHMAD KHAN: I certainly will not object. Then Your Lordship asked Sir Maneckji Dadabhai a question with regard to sterling loans. I think all the sterling loans should be raised through the High Commissioner for India in London.

THE CHAIRMAN: Shall we say through an authority in London?

DR. SHAFI'AT AHMAD KHAN: An authority in London. I do not object to that.

THE CHAIRMAN: Because that point is rather a difficult one.

DR. SHAFI'AT AHMAD KHAN: Yes; I am not deciding it here. But I should like the City of London to be brought into closer contact and direct touch with the requirements of the Government of India, and not indirectly.

THE CHAIRMAN: I do not know whether the Provinces would want to raise sterling loans. Would they?

DR. SHAFI'AT AHMAD KHAN: They may, My Lord.

THE CHAIRMAN. Well, if they did, you would wish that all those should be raised through the Government of India, would you?

DR. SHAFI'AT AHMAD KHAN: I think it would be better, yes - most convenient. That would lead to co-ordination.

THE CHAIRMAN: Through the Government of India?

DR. SHAFI'AT AHMAD KHAN: Yes, in London.

THE CHAIRMAN: I mean there is obviously some difficulty indifferent Provinces raising sterling loans in London. I mean there is a certain power of absorption of Indian loans in London; that might be dissipated between the Provinces and it might possibly affect Central borrowing.

DR. SHAFI'AT AHMAD KHAN: Yes My Lord. I believe in Australia the Australian States raise their loans directly.

THE CHAIRMAN: Yes, but remember!

DR. SHAFI'AT AHMAD KHAN: I would not allow it here; I would certainly have it co-ordinated through one channel in London.

THE CHAIRMAN: Yes; and of course in Australia now they are co-ordinating.

DR. SHAFI'AT AHMAD KHAN: Are they?

THE CHAIRMAN: Yes.

DR. SHAFAT AHMAD KHAN: I see.

THE CHAIRMAN: Is that ^{all} you want to say?

DR. SHAFAT AHMAD KHAN: Yes.

SIR C.E. WOOD: Mention has just been made, Sir, of the Australian pattern, and I personally do not quite see why it is objected to: why there should be any objection to the raising of all loans centrally. We shall probably hear Delegates' further views on that. There seems to be some objection; but my own view is that all external loans should be raised by the Federal Government through a Central Loans Board, composed, as Dr. Shafat Ahmad has just said, of the Provincial Finance Members and the Federal Government representative. They would deal with all the external loans, and have a great deal of control, on the Australian plan, and I think on the German plan also. The Provinces, and presumably the States, would go to the Federal Government for their requirements. The Federal Government would place the onus upon the Board for the raising of these loans which would be distributed in due course to the Provinces in accordance with their need and in accordance with the directions of the Loans Board, which directions presumably would take into account the solvency of the various Provinces. A further suggestion has been made by the European Chambers of Commerce which is to this effect: This Loans Board being entirely, one might say, political, that the Loans Board should take the advice of a non-political Advisory Body composed of persons knowledgeable in finance, such as the Imperial Bank, a representative of another Bank in India,

retired Accountants General. That is a detail, as to how that Advisory Council would be composed; but, as all these Members of the Finance Board would be political people, it seems advisable to have expert advice also from outside, if it could be made available. The suggestion is that the rupee loans of the Provinces should be raised by themselves under the advice of the Loans Board and under regulations similar to those which prevail at present.

THE CHAIRMAN: You say raised by the Provinces?

SIR C.E. WOOD: Raised by the Provinces themselves.

If they can raise rupee loans, let them do so; but in practice they would find it very much more cheap to go to the Central Loans Board for their money. If they themselves had to resort to rupee loans, it would be found that their credit was in a very poor state, and it would be very unlikely that they would obtain money except at a very high rate of interest; so that it really comes to the Provinces relying upon the Central Loans Board for their finance.

I think I am in line with Sir Shafa'at Ahmed, because he cannot quite explain how he gets away from the Federal control. If any member here has a knowledge of the working of the Australian Board and knows of any objection to that form of control it would be very useful, I think, to this meeting to hear something about it.

DR. SHAFAT AHMED: There is a chapter in the Report on the working of the Australian Constitution.

SIR C.E. WOOD: So far as I am aware, it has worked very satisfactorily.

THE CHAIRMAN: They have been centralising loans lately. You may agree in spirit with Dr. Shafa'at Ahmed, but your scheme is different. Your Loans Board is both an advisory Board and a loan-raising Board.

SIR C.E. WOOD: It would become advisory only if the Provinces decided to raise rupee loans. I doubt very much if it would ever be called upon to advise.

THE CHAIRMAN: I was only thinking of what authority or what security a Loans Board like that could give. I think that wants rather carefully examining.

SIR C.E. WOOD: It would have to have Statutory powers, of course.

MR. IYENGAR: It must be a Statutory authority.

SIR M. DADABHOY: Sir Walter Layton argues to give them complete power. He says: "The Council would establish a borrowing programme, lay down the regulations

referred to in the preceding paragraph, subject to the approval of the Government of India, and arrange terms etc. with them."

SIR SHAFI'AT AHMED: It will have to be Statutory, my lord.

THE CHAIRMAN: Its relations to the Government of India I do not quite understand.

MR. IYENGAR: That is a matter upon which we should like some enlightenment.

SIR M. DADABHOY: Sir Walter Layton also advises that during the transitional stage this Council should be of an advisory kind, giving them full control later on to make all arrangements.

SIR SULTAN AHMAD: I should like to say just a few words, my lord. Will you kindly turn to page 8 of the memorandum prepared by the Lord Chancellor, paragraphs 27, 28, 29, 30 and 31. These paragraphs deal with the question which Your Lordship is considering:

"The nature of the arrangements to be made regarding Provincial borrowing depends upon the degree of financial independence that will be enjoyed by Provincial Governments, and this is a political issue of first importance.

We are not here concerned with Provincial independence on the administrative side, but if in the sphere of finance it be held that the Provincial Governments should be completely independent, that

power of intervention for the purpose of securing financial stability should be vested in the Governor, the Governor-General or the Federal Government, and that the Federal Government has no interestⁱⁿ or responsibility for a financial breakdown (a contingency which it would be foolish to ignore), then clearly the Provincial Government must be left free to borrow as it pleases in the open market."

Stopping there, I think all of us would be agreed that it would be far from our intention that there should be no authority to interfere in the case of financial breakdown, or anything like that. I think all of us must see that a contingency like that is clearly provided for in the Constitution itself. What that provision should be we have to consider. At the present moment under Section 30 of the Government of India Act, 1 (a) there is a provision that "

"A local government may on behalf and in the name of the Secretary of State in Council raise money on the security of revenues allocated to it under this Act, and make proper assurances for that purpose, and rules made under this Act may provide for the conditions under which this power shall be exerciseable".

Under 31 (a) Local Government borrowing rules were framed. Rule 2 of the Local Government Borrowing Rules says

" 2. A local Government may raise loans on the security of the revenues allocated to it for any of the following purposes, namely:-

(a) to meet capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility, provided that

(i) the proposed expenditure is so large that it cannot reasonably be met from current revenues, and

(ii) if the project appears to the Governor General in Council unlikely to yield a return of not less than such percentage as he may from time to time by order prescribe, arrangements are made for the amortisation of the debt;

(b) to meet any classes of expenditure on irrigation which have under rules in force before the passing of the Act been met from loan funds;

(c) for the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity;

(d) for the financing of the Provincial Loan Account.

Therefore there is at present in existence this Provincial Loan Account:

(e) for the repayment or consolidation of loans raised in accordance with these rules or the repayment of advances made by the Governor General in Council.

3. (1) No loan shall be raised by a local Government without the sanction (in the case of loans

to be raised in India) of the Governor General in Council, or (in the case of loans to be raised outside India) of the Secretary of State in Council, and in sanctioning the raising of a loan the Governor General in Council or the Secretary of State in Council, as the case may be, may specify the amount of the issue and any or all of the conditions under which the loan shall be raised."

Then, under the Devolution Rules, No. 25

" The Governor General in Council may at any time make to a local Government an advance from the revenues or moneys accruing to the Governor General in Council on such terms as to interest and repayment as he may think fit,

The moment we have the Reserve Bank all these difficulties will disappear, because the Reserve Banks may be the Bankers for the Provinces. All our surpluses may be deposited in the Reserve Banks. The Reserve Banks will act also as advisory bodies too. They can advise and look after the financial stability of the Provinces.

Now will you kindly continue with paragraph 29 of the note prepared by the Lord Chancellor;

"On the other hand, the view may be held that if Provincial contributions figure in the scheme of Federal finance the solvency of a Province is a matter of direct interest to the Federal Government. Further, as the financial breakdown of a Province could not fail to affect the credit of the Federal Government, both in India and abroad, and so prejudice Federal borrowing, there can be little doubt that the Federal Government, whatever its constitutional responsibilities may be, would, in practice, have to come to the assistance of a bankrupt Province. Seeing, therefore, that excessive borrowing or borrowing for improper purposes must inevitably create an unsound financial position, some control over Provincial borrowing should rest with the Federal Government.

But whether or not the Provincial Governments be subject to Federal control in the issue of Federal loans, it is desirable, in the general interests of the Federation, that a Federal Loans Fund should be established."

This is what I would suggest, that the Committee should recommend: "A Federal Loans Fund should be established, as if borrowing be coordinated competition in the markets is avoided and money obtained on more favourable terms".

The whole of this paragraph is practically taken from Sir Walter Layton's Report.

"As, however, the fund would be fed from federal resources the Federal Government should be free to grant or withhold advances at its discretion, and if advances be made to impose such terms and conditions as it considers suitable. In this manner a real, though indirect, control over provincial finance would be secured."

I would recommend this, because you are getting over the question of the autonomy of the Provinces, and at the same time exercising full control without using the word "control," directly over the borrowings by the provincial Governments. You will have the Federal Loans Fund, and this Federal Loans Fund would be fed from the resources of the Federal Government. If the Federal Government finds that the advances which are proposed to be made to a local Government are not proper, then in that case the Federal Government would not make advances to the Federal Loans Fund. Therefore you get in an indirect manner control over provincial borrowings, without in any way affecting provincial autonomy.

THE CHAIRMAN: It is pretty direct, is it not?

"As, however, the fund would be fed from federal resources the Federal Government should be free to grant or withhold advances at its discretion, and if advances be made to impose such terms and conditions as it considers suitable."

SIR SAIED SUJIBAN AHMED: Yes.

THE CHAIRMAN: I call that a pretty direct control over loans.

MR. IYENGAR: The Federal Government lends money from its resources.

SIR SAYED SULTAN AHMED: The Government of India say that it is indirect. It is undoubtedly real, but it is indirect. In the very next sentence it says:

"In this manner a real, though indirect, control over provincial finance would be secured."

THE CHAIRMAN: It struck me that it was pretty direct.

SIR M. DADABHOY: No; it is indirect control. Whatever it may be it is in the nature of control.

SIR SAYED SULTAN AHMED: Whatever it may be, it is, I think, real control.

THE CHAIRMAN: Certainly it is real control. You support that?

SIR SAYED SULTAN AHMED: Yes.

SIR C.E. WOOD: Does not Sir Sayed Sultan Ahmed prefer that the Loans Board should be there composed of members of the Provinces and the States? Does he want to keep them out of the way? That is what I do not quite understand.

SIR SAYED SULTAN AHMED: Have you got any at present?

SIR C.E. WOOD: No, but that is the suggestion.

SIR SAYED SULTAN AHMED: We have a provincial Loans Fund account at present.

SIR C.E. WOOD: Who is going to raise the loans, and who is going to direct that the Provinces shall get the money?

MR. IYENGAR: That is the whole thing.

SIR M. DADABHOY: That is the crux of the matter.

SIR SAYED SULTAN AHMED: The Provinces will raise the loans. They raise the loans even at present.

THE CHAIRMAN: You say that the Provinces are to raise the loans?

SIR SAYED SULTAN AHMED: They have power now.

SIR M. DADABHOY: They raise them, but it is subject to the control even now.

MR. IYENGAR: There is a question to which I should like a reply. Sir Sayed Sultan Ahmed has raised the question whether when you have a loans fund (whether it is called a Federal Loans Fund or a Provincial Loans Fund) and the money is advanced by the Federal Government to the Provinces, they have not got the right to insist upon certain conditions in regard to the payment of those loans, and the right to refuse to lend that money. That is the first point. The other point is that Sir Sayed Sultan Ahmed referred to the present borrowing powers. I agree that it does exist, but it happens that after exercising these powers and borrowing, some of the provincial Governments finding it not exactly satisfactory have now drawn upon the provincial Loans Fund itself, out of which large sums have been advanced by the Central Government out of its general revenues.

SIR SAYED SULTAN AHMED: That is right.

MR. IYENGAR: Large sums have been advanced by the Central Government out of its general revenues to these people on terms and conditions which are very rigid. In so far as they can obtain money from the Provincial loans, conditions are being imposed by the Provincial Loans Fund rules. Therefore, what is the suggestion which Sir Sayed Sultan Ahmed makes with regard to the borrowing by the Provinces from the Federal authorities?

SIR SAYED SULTAN AHMED: I suggest that the Provinces should be allowed to raise money as they are at present raising it. If they want money, they must go to this Federal Loans Fund, which is at present called the Provincial Loans Fund account. They must go to the Federal Loans Fund. Then the Federal Loans Fund is fed by the Federal Government, and, therefore, the Federal Government have the power.

MR. IYENGAR: Quite.

SIR SAYED SULTAN AHMED: Therefore, in that way it is real control, although the approach is not direct by the provincial Government to the Federal Government.

MR. IYENGAR: I understand. Therefore the proposal of Sir Sayed Sultan Ahmed is essentially different from that of Sir C.E. Wood when he says that what he wants is that there should be a separate loans board which will be neither the Federal Government, nor a Committee of provincial Governments, which will disburse the fund out of assets placed at its disposal, and administer it as if it were

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a loans agent.

SIR SAYED SULTAN AHMED: I give greater control really to the Federal Government, because the local Government must go to this Federal Loans Fund for money.

MR. IYENGAR: That is what I wanted to know.

SIR SAYED SULTAN AHMED: The Federal Loans Fund is really a Federal Government Fund.

SIR C.E. WOOD: May I point out that it is then in the hands of the Federal finance member, instead of in the hands of the Federal finance member and all the provincial members?

SIR SAYED SULTAN AHMED: That is right. As I said, it is more real control of the Federal Government.

MR. IYENGAR: That is the point.

SIR SAYED SULTAN AHMED: I said so.

DR. SHARAFAT AHMAD KHAN: The Federal Loans Fund has very little power as far as the organisation of the loan is concerned. It will not perform the same functions.

SIR SAYED SULTAN AHMED: There is no Federal Loans Fund at present. There will be one later on.

THE CHAIRMAN: You say that they go to the Federal Loans Fund. You do not go to a Fund, but to an object.

SIR SAYED SULTAN AHMED: Yes.

THE CHAIRMAN: Is there some body in control of the Federal Loans Fund?

SIR SAYED SULTAN AHMED: Yes. It is really a bank. It is the Federal Government's special bank. When the reserve bank is established this Federal Loans Fund will disappear. It is really a sort of bank. Of course it is the Government of India bank, a special account.

SIR C.E. WOOD: That is not my view of it.

SIR SAYED SULTAN AHMED: That is my view.

DR. SHAHJAT AHMAD KHAN: No.

THE CHAIRMAN: Whatever we call it, you say that the Province goes to a bank, and wants to borrow so much.

SIR SAYED SULTAN AHMED: Yes.

THE CHAIRMAN: Who gives it authority to borrow?

SIR SAYED SULTAN AHMED: Authority is not required to borrow. The local Government has the power to borrow at present also.

THE CHAIRMAN: I want to see at exactly what point the Federal control comes in. It goes to this bank, and it says that it wants to borrow, anything you like, 100 lakhs. Who gives it leave to borrow?

SIR SAYED SULTAN AHMED: That is the Federal Government.

THE CHAIRMAN: You can come and ask to borrow, but who gives you leave to borrow?

SIR SAYED SULTAN AHMED: The local Government.

THE CHAIRMAN: No. The local Government wants to borrow.

SIR SAYED SULTAN AHMED: Yes.

THE CHAIRMAN: A debtor has got to borrow from somebody. It is all very well to say, "I want to borrow." You have to get somebody to lend you the money.

SIR SAYED SULTAN AHMED: That is right.

THE CHAIRMAN: Who advises this lender? You say that this lender has control of funds.

SIR SAYED SULTAN AHMED: Yes.

THE CHAIRMAN: Who advises the lender?

SIR SAYED SULTAN AHMED: The Federal Government.

THE CHAIRMAN: Then the ~~control~~ ^{check} control over the Provinces under your scheme is in the hands of the Federal Government?

SIR SAYED SULTAN AHMED: Undoubtedly. I have said so.

THE CHAIRMAN: It does not much matter after that whether they get it through what you call a Federal Loans Fund.

SIR SAYED SULTAN AHMED: Undoubtedly. I have told your lordship that. My suggestion gives the Federal Government greater control over the borrowing.

THE CHAIRMAN: I was a little surprised. I thought that you were talking so much about the freedom of the Provinces, and now you seem to go further than anybody else.

(page 42(a) follows).

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SIR SAYED SULTAN AHMED: Undoubtedly, but I go only indirectly. I do not go directly.

THE CHAIRMAN: I think that the provinces will consider it pretty distinct control, if I may say so.

DR. SHAFI'AT AHMAD KHAN: It would be.

SIR SAYED SULTAN AHMED: The Government of India think that it is indirect control, at any rate.

THE CHAIRMAN: I doubt if you would hoodwink the Provinces by calling it indirect control, would you?

SIR SAYED SULTAN AHMED: If it violates any principle of which I am very fond I do not mind that so long as the financial stability is established.

THE CHAIRMAN: That is what you want to establish?

SIR SAYED SULTAN AHMED: Yes. It is really much better in words not to use the words, "control by the Federal Government". That is all. I do not want to use those words. I should like to see control.

THE CHAIRMAN: You want complete control without saying so or specifying it in words. That is quite clear.

SIR SAYED SULTAN AHMED: That is so no doubt.

(page 43 follows).

SIR AKBAR HYDARI: It seems to me to be necessary to take one by one the different stages through which one has to go before a loan is actually completed and to state what will be the authority that will be required for bringing that transaction to that particular stage. In the first place there is the - what I call - Supervisory power so far as the Provinces are concerned which are referred to in paragraph 28 of the Lord Chancellor's Memorandum, responsibility for financial breakdown, financial stability, and so on. Before anybody can think of having a loan that authority will have to say that really the loan is permissible without over-riding that essential condition, and if any provincial unit contemplates a loan it will have to get over that caveat. That is the first, and that I call the Supervisory, initial stage before anything can be done.

Then there come these two words "co-ordination" and "control". By "co-ordination" I thought it meant merely to co-ordinate the borrowing necessities of the different provincial units in such a way that the best terms are obtained, that one Province does not go out and try to get a loan at a time when conditions are not the most favourable, or when it is also known that another Province is competing; so that in order to co-ordinate the whole thing, the whole transaction, all the Provincial units, all the units who wanted to do so, would really come into this what I may call common channel - or would have a common mind. There has to be something of co-ordination in that respect that the loans which are required in the course of the year are raised in the best way possible with due regard to the convenience of the units

and due regard to the competing necessities of the different units and the general aspects of the money market.

The third point is that of control, which I thought was this. A reference was made to the control which could be exercised as envisaged in paragraph 30. But that is indirect control. Direct control would be this -

MR. IYENGAR: I think it is indirect control of the finances as a whole, not of the borrowing money.

SIR AKBAR HYDARI: I mean to say even with regard to borrowing it would be merely a very indirect control through borrowing.

The direct control would be this, that if a Province wants a loan and it is refused the question is whether it should be at liberty to go to another channel, for instance, to the Reserve Bank; then if the Reserve Bank does not give it whether it would be open to go to the Chartered Bank or another Bank or some other financier who would be prepared to give a loan on terms which that Provincial Federal unit in particular conditions of finance - I may say with particular canons of financial propriety - might consider. It quite legitimate to approach. The question is whether that sort of control should be enforced or whether you should allow a Province to go to any place it likes even if it finds the door closed to getting the amount through this particular Central authority.

Now having explained what I thought was in my mind when these different terms were used, I am more or less inclined to agree with the proposals which have been sketched out on page 5 of the Finance Department's memorandum, subsidiary questions. The way in which I think about it on the whole is this, that it will be best in our own interests - I am here

speaking of the Provinces, I must speak about the Provinces , and I may say that a State like Hyderabad would approach the same Agency as it has practically always done in the past - it will be in our own interests to adhere to the canons of financial propriety if we always go to an institution which we know to be above board, to be an expert institution and to be absolutely honest, when we feel that we are kept within our bearings if we have got an institution of that kind to go to. Therefore I say that I do not think it entrenches upon my financial or other principles if I make use of an organism of that kind.

THE CHAIRMAN: You want to be free to go to it. Do you want to be bound to go there, or do you want to be free to go elsewhere if you want to?

SIR AKBAR HYDARI: It would be optional as far as the States are concerned. With regard to the Provinces, of course it is not a matter for me to say whether they should be bound or not be bound. Speaking as a Provincial man, I should say that it should be bound in its own interests, in order to get its borrowings on the best terms, with the best expert advice that was available for it. But it is not for me to say; I am submitting it simply in that form.

Now the question is, what is this agency, or what is this body to which a federating unit that desires to come into this organisation, has to apply, which will be the body which will obtain the funds which the federating unit wants? You have to create a body and you have to envisage a body of that kind. Those who desire to give the utmost possible freedom to this body have asserted that this body should consist of the Finance Minister of the Province going to the Reserve Bank and saying: "We want such and such an amount, and will you kindly find it for us." If I have understood it aright it really comes down to that: that ^{it} is the Finance Minister of the Province going to the Reserve Bank for its loan. Another set of opinion says that it should not be the Financial Minister of the Province acting directly and going directly to the Reserve Bank, but we must set up a Council on which there are the Finance Minister of the Province itself and the Finance Ministers of the other Provinces - of all the federating units that want to come into this; and that that body should go to the Reserve Bank on behalf of its units. My own personal idea is that we must try to have a kind of co-ordination of the two. There should be a body set up on which there would be, on the one hand, representatives of the Reserve Bank, say, the Governor and the Deputy Governor of the Reserve Bank, and the Finance Ministers, on the other hand. They should, first of all, have before them the loan programmes of the different federating units and of the Federal Government. They should decide first of all how those programmes for the year could be best met and adjusted. That would be the

to all those who come in . It is for the Provinces to say whether they will come in or not. In my opinion they ought to come in; and the Indian States also I think should come in, but they may be left to decide that for themselves in order simply to preserve the idea of sovereignty. They must then go to this body which has, on the one side, the Finance Ministers who are able to urge their own requirements and their own demands and to say what their programme is going to be. On the other hand there will be the authority of the Reserve Bank which will bring all the expert knowledge of the conditions of the market and so on before them. Such a body should be created for the purpose of the Loans operations of the Federation and of the federating units. That is my opinion.

MR. IYENGAR: May I put a question or two?

THE CHAIRMAN: Yes.

MR. IYENGAR: Sir Akbar, I think I am inclined to agree with practically every suggestion that you have made. Your suggestions carry us to the stage at which these ^{people} will co-ordinate their own financial needs and requirements and adjust a programme so that they may get the best terms for themselves, each in his own way, out of the market. When you have done that I want to know which is the authority that will actually be the legal authority which will borrow the money. These people will be, as it were, the agents, or the people who advise?

SIR AKBAR HYDAR: I say that they would be clothed with the necessary statutory authority.

MR. IYENGAR: That is what I wanted to know. So that they will be the statutory authority in whom will vest all the borrowing powers of the units?

SIR AKBAR HYDARI: Yes.

MR. IYENGAR: And that authority, having obtained all that power and all the authority to use the credits of the units concerned, will raise the necessary funds as and when the market is favourable?

SIR AKBAR HYDARI: Yes.

MR. IYENGAR: And then disburse them to these various units in the most advantageous manner possible to them?

SIR AKBAR HYDARI: Yes.

MR. IYENGAR: In other words, you want a Loans Board to be created with statutory authority in this behalf?

SIR AKBAR HYDARI: Yes. And no federating unit which has made use of such a Board at one time can go out of it unless it has repaid all its liability to this Board.

MR. IYENGAR: Yes, that is clear; that is the idea you want?

SIR AKBAR HYDARI: Yes.

THE CHAIRMAN: Then the whole of this money will be borrowed on the credit of the Federal Government?

MR. IYENGAR: Of all the units that are joining it.

THE CHAIRMAN: Wait a minute. It can only borrow on the security of the Federal Government; it cannot

bind the units that come to it. It relendsto them on what security it can get from them, but its own loans are on its own security?

MR. IYENGAR: No. As I understand Sir Akbar Hydari, this Loans Board will be a statutory body . That body will have the authority to go to the market and ask for a certain loan for a certain purpose, and will undertake, on behalf of the body that wants that loan to repay the loan. It will be the statutory authority which will be clothed with the authority to borrow on behalf of the units concerned.

SIR SAYED SULTAN AHMAD: What will be the security?

MR. IYENGAR: The security, of course, is the security which they offer on behalf of the units who want the money.

MR. KRISHNAMA CHARI: That is the credit of the borrowing units.

THE CHAIRMAN: It would defeat the whole purpose of it if it were on the security of the unit borrowing, because the whole point is to get cheaper money because you get the security of the Federal Government.

MR. IYENGAR: Yes, of course.

THE CHAIRMAN: It can relend at a profit if it likes.

DR. SHAFI'AT AHMAD KHAN: It is on the security of the Central Government plus the Security of the unit - both combined.

THE CHAIRMAN: Is that so?

MR. IYENGAR: That is what I thought was understood.

SIR SAYED SULTAN AHMAD: I did not understand it in that way.

THE CHAIRMAN: When the Government borrows this money, it borrows it as it borrows its other loans; there would be no distinction, as I understand. I will put it in this way: there is no distinction between the loans it borrows for its own purposes and the loans it borrows for the purpose of relending, or part of which it relends, to the Provinces.

SIR SULTAN SAYED AHMAD: No difference at all.

THE CHAIRMAN: There is no security given by any of the borrowing units at all.

MR. IYENGAR: May I put it as I understand it?

SIR AKBAR HYDARI: The units from the beginning will all be there and from the very beginning the credits of the revenues of all these units will be there.

MR. IYENGAR: May I clear up my ideas, Sir Akbar, as to what you say? The proposal that you make is simply this, that the Loans Board will borrow in the market for whatever purpose it considers the needs of all the units may require, and it will borrow it on the joint credit of all the units. Then each unit, as and when it wants it, will borrow it from the Loans Board, and will be answerable to the Loans Board for repayment, interest, sinking fund instalments, or whatever may be the arrangement. The Loans Board will borrow all the money that is needed and will disburse it as loans to the units. It will be a Central borrowing authority

for all of them. That is how I understand it, Sir.

SIR AKBAR HYDARI: And it will be clothed with the credit of all of them, including the Federation itself which will be also one of the borrowing units.

SIR C.E. WOOD: That, of course, is what has happened recently in Australia. The Commonwealth Government recently have backed a defaulter because of its position as the borrowing power.

THE CHAIRMAN: Well, it backed a defaulter because it could not allow the defaulter to default; I think.

SIR C.E. WOOD: Now it recognised its undertaking.

SIR M. DADABHOY: Sir Akbar, I understand that you say that the loans will be acquired on the combined credits of the units and the Federal Government; is that your idea?

SIR AKBAR HYDARI: Yes.

MR. IYENGER: You see, having the loans programmes of this year, they will understand what the loans programmes of the several units are; so that they will have an idea of what the requirements will be in the next year. So the Loans Board will put up a total programme of, say, 100 millions.

SIR AKBAR HYDARI: And no unit will be able to approach the Board unless it has first passed the hurdle of that financial supervising authority.

SIR R. HAMILTON: May I ask Sir Akbar a question?

THE CHAIRMAN: Yes.

SIR R. HAMILTON: If he were a Provincial unit wanting to raise a loan, what would he put in the prospectus as being the security?

SIR AKBAR HYDARI: It is the Loans Board. First of all, it would be fully known that the Loans Board would be clothed with the credit of all the units. It would raise loans whenever required and would say that the loan is being raised on the revenues of the Central.

MR. IYENGAR: Sir Robert Hamilton, the point is that the Provincial Government itself does not go to the Federal Government; it merely goes to the Loans Board, and the Loans Board goes to the market.

THE CHAIRMAN: Suppose I am lending money; on what security am I lending it? Is it on the security of the Federal Government? I may say that I do not quite understand whether I am lending money on the security of the Federal Government or also on the security of a group of units. I do not think that is so; surely that is not so.

SIR M. DADABHOY: Is not it a cumbersome process altogether?

THE CHAIRMAN: Take this point; I look to the Government that is borrowing the money, that is to say the Federal Government. What extra security do I get for my loan by saying that it is secured on these units? Is the Federal Government going to be able to make a precept on these Provinces in order to get the interest on the money if they find it difficult to meet it? I think not; I think

you would all object to that .

SIR AKBAR HYDARI: No, no; I mean the Federal Government will have control to realise this money as any creditor would have control over any other debtor.

THE CHAIRMAN: Of course the Federal Government will have whatever power it can have as a creditor to get the money it chooses to lend to any Province; that is quite understood; but I do not quite see what I myself as an outside creditor get. I get no additional security by a mere statement that it is secured upon the revenues of the constituent units of the federation.

SIR AKBAR HYDARI: Well, the additional security is this, that perhaps the revenues of the Federal Government might not be sufficient. You are given a much larger security when it is on all the revenues collected over the whole area of the Indian territory.

SIR C.E. WOOD: As at present.

MR. IYENGAR: As at present?

SIR AKBAR HYDARI: Yes.

THE CHAIRMAN: May I put it in this way: if I am lending the money to the Federal Government, do I lend that money on the security joint and several both of the Federal Government and of all the units forming that federation?

SIR AKBAR HYDARI: Yes.

MR. IYENGAR: You do it today.

THE CHAIRMAN: Yes. That is the whole difference.

MR. IYENGAR: And we say that it may be done tomorrow.

THE CHAIRMAN: No, No. We are approaching a principle here. You do it today for a very good reason, namely that you have got hitherto, under certain disguised forms, a unitary government in India which has authority over the Provinces; but the very hypothesis of our scheme is that you do not have authority; you are giving up authority over the Provinces.

MR. IYENGAR: The suggestion therefore made is that, with a view to protecting these rights of autonomy, we set up this Loans Board which would be a kind of Federal Government in respect of borrowing. Just as you set up a Federal Government to exercise administrative powers, so in respect of borrowing powers this would be the Federal authority, because on that Loans Board would be represented all the units.

SIR AKBAR HYDARI: I was about to use that very expression. -- that this would really be a federation of banking.

SIR C.E. WOOD: What happens in practice is that the Federal Government borrows through this Loans Board and lends (it may be in rupees) to the Provinces.

so that the liability for repayment is from the Province to the Federal Government.

THE CHAIRMAN: That is exactly my point.

SIR C.E. WOOD: The liability to the outsider is from the Federal Government to the lender.

THE CHAIRMAN: You are putting shortly what I was explaining. I was saying that I could not agree with the other statement, because there is no tie between the lender outside and the Provincial Government whatever. He looks entirely to the Central Government.

SIR C.E. WOOD: He has the guarantee that the Central Government can look to the Provinces for repayment.

THE CHAIRMAN: That is no guarantee.

SIR M. DADABHOY: Is not the credit of the Federal Government quite sufficient?

THE CHAIRMAN: That is all you get.

SIR C.E. WOOD: Suppose today we decided that the Provincial revenues were not responsible jointly with the Central for repayment of loans: would not that affect the credit of the country adversely?

THE CHAIRMAN: That is so now.

SIR C.E. WOOD: Yes, but suppose it were announced that the provincial Governments were no longer

going to be responsible, would not that affect the position of the loans?

SIR M. DADABHOY: No, because the money is given on the credit of a party.

SIR SULTAN AHMED: Let me put the position as I see it. I, as a provincial unit, am in need of money. I suggest that a Provincial Loan Fund may be created, if it does not exist; or I go to the Federal Government and I say "Give me some money". If the Federal Government has got money -- that is, in the Provincial Loan Fund, which I called a Bank -- then, after due enquiry, the money will be advanced to the Province on the security of the Provincial revenue. It has nothing to do with the other units. Why should they come in at all? If this Provincial or Federal Loan Fund has not got any money, it will have to be found elsewhere. That is a part of the Federal Government, and this Federal Government will go outside in the market to get money in order to feed the Province; but it must be on its own revenue.

SIR AKBAR HYDARI: Take an instance in ordinary business. Say a loan of \$100 million is required, and it is required for five or six different companies which have agreed to get all that through one particular agency. Supposing that particular agency already had resources of its own and that agency approaches the market, will that agency not be able to obtain much better terms

if it hypothecates not only its own resources but the resources of all the five other people towards raising whatever loan is required.

SIR M. DADABHOY: If it can.

SIR AKBAR HYDARI: That is what I am saying. Otherwise an outside creditor -- the man who subscribes to the loan -- has only to look upon the revenues of the Federal Government which may be only, say, £100 million a year, about 70 or 80 crores; whereas the whole amount of the loans which are required by all the rest of the federating units, which would have a revenue of several hundred crores a year and which might require perhaps a loan equivalent to 100 crores at one time; otherwise the only security which they can offer is this 100 crores of revenue which they themselves have. In case of default they can call also upon Provincial Governments to pay up. Otherwise a defaulting Province might say "The loan has not been raised on our revenues, but on yours".

SIR M. DADABHOY: Ordinarily, does an investor in India, when a Government loan is floated, enquire what is the security of that loan? He does not. He only goes on the credit of the Government of India. If that is sufficient, why complicate it by having the credit of the units also brought into it?

SIR AKBAR HYDARI: What is the complication? What is the advantage in keeping the credit of the units out of this in which they are interested?

SIR H. DADABHOY: My objection to it is this. It will impair the credit of the Federal Government to bring in the other units to support its credit.

SIR AKBAR HYDARI: It is a matter for experts to say whether the loan will be better raised on the credit of the Federal Government plus the federating units, or on the credit of the Federal Government alone.

SIR H. DADABHOY: If I was a creditor and if I had one good security, I would be quite satisfied. I would not look for other forms of security. I want one substantial security, and what is more substantial than that of the Federal Government?

SIR AKBAR HYDARI: I thought that a prudent creditor would always look at the resources and the annual income of the borrower, however honest he may be. Whatever may be his credit I should certainly want to see his balance sheet, and what his revenues and expenditure were. However, that is a matter more for those people who have to deal with loans, and in that your experience is much greater than mine, but it seems to be that I am offering much better credit if I add to my own credit the credit of others.

THE CHAIRMAN: May I ask you another question about this Loan Council? You say that one of its duties is to co-ordinate, that is to say, to gather together, all the requirements of the States and Provinces, and so on, and its own, as to the money that they want to raise in the year. You may be quite certain that what they will want to raise will be far more than they think that the Central Government can raise. What happens? Which is the authority for deciding who shall get his loan and who shall not, and who shall abate and who shall not, with regard to the distribution of the money among them? By whom is that done?

SIR A. HYDARI: They are all represented. It is the whole board.

THE CHAIRMAN: It is done by the whole board itself, is it?

COLONEL HAKSAR: Why not bring the discussion back to the scheme outlined in paragraph 2 of memorandum 2 of the Government of India, because every one of the issues which have been discussed is dealt with there? The Committee can say that the proposal is sound, or it can suggest alterations and amendments. I am rather feeling that two things have happened in the course of the discussions. One is that some people have looked at the proposition from the point of view of the creditor. Others have looked at it from the point of view of the Federal Government; in other words, whether the creditor will have sufficient security or not, and whether the Federal Government would have sufficient resources or not to bear the burden of any loans which it might borrow on behalf of the Provinces. Consequently, a certain

amount of confusion has resulted. Before I deal with this aspect of the question a little further I should like to ask you, Sir, whether from your point of view the difficulty which underlies the problem is not this, that, as the Provinces are going to get autonomy, and that autonomy in regard to finance has not yet been established, therefore the Federal Government when it comes into being would not have the same hold upon the finances of the Provinces as it has today under Section 20 of the Government of India Act? Is not that the underlying difficulty?

THE CHAIRMAN: That is the difficulty that I have been stating.

COLONEL HANSEN: I beg to submit, as I deal with the problem, that that difficulty will really not arise. I will tell you the reason. Whatever measure of autonomy the Provinces might get even in regard to finance, if the Provinces voluntarily join a Provincial Loans Fund, or consent to participate in an arrangement which is in the nature of setting up a Board of Loan Commissioners, they are willingly submitting to a certain amount of control which will imply many things. Therefore, if a Province wants to raise a loan, and submits its proposition to the Federal Government, the Federal Government could not merely co-ordinate the borrowing operations having regard to similar requests received from other Provinces, and having regard to its own credit at a particular moment, and decide whether a particular loan may or may not be floated at a given time, but it would also have the right to say (and this is my reason for suggesting that the discussion might be brought back to paragraph 2 of memorandum 2) in certain instances if the need arose that such

and such a loan may not be raised.

MR. IYENGAR: You mean an administrative grounds?

COLONEL HAKSAR: Say, on financial grounds. It would be a question of the financial position of a particular Province at a given time. Every Province would want to develop. Every Province would want to launch upon schemes for its own development. The question would, therefore, have to be considered whether the money which it wants to borrow for development purposes is money which it can repay, whether it can repay the interest upon it and whether it can in due time liquidate the loan. Obviously you could not trust the Provinces to take a very impartial view of that question. However, I am not saying anything about that. What I am saying is that the moment that the Province comes to the Federal Government to ask them to assist it with the required money, either out of the Provincial Loans Fund or by going into the market to borrow more money, it is impliedly hypothecating its resources to the Federal Government. That happens today. I shall presently deal with this question from the point of view of the States, but I have to make these remarks in consequence of the course of the discussion. Today the Government of India very often obliges States, over which in the matter of borrowing they practically exercise no control, by persuading other States to lend them money. They do not pledge their own credit or their own resources to the State. State A may go to the Government of India today and say: "I want two crores of rupees." The Government of India first considers whether that State would be able to repay that loan. Having satisfied themselves that it would be able to repay the loan, it goes to State B and says: "You have 5 crores of rupees, of which 3 crores are invested. The remaining 2 crores are liquid assets. Would not

you lend this money to State A?" State B says: "Yes, I would, but are you willing to give a guarantee that if State A does not pay you will pay?" The Government of India say: "Never."

THE CHAIRMAN: Quite right.

COLONEL HAKSAR: That is the present position. The Government of India say: "No. We cannot pledge the resources of British India. We are prevented from doing so under Section 19."

THE CHAIRMAN: At the present moment, they cannot, ~~for~~ of course.

COLONEL HAKSAR: But what does it do? It says to State A: "We are perfectly willing to assist you in borrowing this money. We give you our moral support. What assurance can you give us that you will repay this loan?" They look round for themselves. Has that State got a share in railways? If so, what are the earnings of the railways? Does that State have anything in the nature of salt compensation? Yes, it does. It is a payment which the Government makes. Then it says to State A: "Very well, if you want us to assist you in raising this money, we have arranged for State B to lend you the money, but you must understand that until the sum that you have borrowed has been repaid your revenue accruing from such and such a source, which belongs to you, will be diverted to the liquidation of the loan."

MR. IYENGAR: Mortgaged.

COLONEL HAKSAR: It is a hypothecation. The same position would arise in the future in the case of the Provinces, and I think that the position would be fairly clearly understood.

At the same time, before I go any further with this question, I am bound to point out that I entirely agree with Sir M. Dadabhoj in saying that loans are really raised on the credit of Governments and not on the actual resources of Governments. How are loans raised today? The Government of India proposes to float a loan. The terms are so and so. Tenders are invited, and money flows in. Why is that? It is because of the credit of the Government of India.

MR. IYENGAR: That is so exactly.

COLONEL HAKSAR: It is not a question of the resources of the Government of India at any given moment.

MR. IYENGAR: That is quite right.

COLONEL HAKSAR: The investor in India does not examine the balance-sheet at the time, but because the Government are raising the money, and the credit of the Government is very high, he takes up the loan. That happens every day, and it has been happening for as long as I can remember. This I say by way of elucidation, but your question to us was; if the Federal Government are to have any control of provincial borrowing in the future what would be the position of the States in regard to the scheme.

THE CHAIRMAN: Yes.

COLONEL HAKSAR: I think that Sir A. Hydari has already said this. I think that he intended to say what I am going to say. If he meant anything else, I hope that he will correct me. I draw attention to page 25 of memorandum No. 2 of the Government of India Finance Department, where it is stated:

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"Taking into account these conflicting considerations, it is suggested that, on balance, co-ordination of loan policy should, at least at the outset, be regarded as of major importance, but that restriction on the Provinces' freedom to borrow on their own credit should not be pushed to extremes."

Then they say "an arrangement containing the following features is put forward for consideration".

SIR AKBAR HYDARI: That was the portion I referred to.

COLONEL HAKSAR: Then the last paragraph on this page is -

THE CHAIRMAN: Is this on Federal Finance?

COLONEL HAKSAR: Yes. It is the very last paragraph: "As regards the Indian States, it is not possible at present to suggest more than that they should be allowed to become voluntary adherents to the Provincial Loans Fund arrangements, in which case they would submit to all regulations applicable to the Provinces. If they find that it pays them to borrow through the Provincial Loans Fund, they may be expected to submit to the closer regulations and supervision which would be a condition of their adherence".

As regards the position of the States in reference to this question I would say that it could not have been better stated than it is stated here, speaking on behalf of the States.

THE CHAIRMAN: That is exactly your view as expressed in this passage?

COLONEL HAKSAR: Yes.

THE CHAIRMAN: That they should be free to borrow.

COLONEL HAKSAR: They are free today, subject to certain qualifications.

THE CHAIRMAN: I am only asking about borrowing because we are dealing with that. They should be free to borrow as they like and when they like and how they like and where they like?

COLONEL HAKSAR: Borrowing on their own credit.

THE CHAIRMAN: Yes, but obviously if they chose to come into these arrangements they would be bound like anybody else.

COLONEL HAKSAR: That is exactly stated here.

THE CHAIRMAN: I only wanted to put it in other words.

COLONEL HAKSAR: If they want to come into the Loans Fund arrangement, obviously they would have to come in on the terms which the Federal Government offers, not on their own terms. If they do not choose to do so they would still be at liberty to borrow on their own credit.

SIR AKBAR HYDARI: This was the portion I referred to. I said I agreed with that generally.

SIR SAYED SULTAN AHMED: But your proposal is different.

SIR AKBAR HYDARI: I do not think so.

COLONEL HAKSAR: This Memorandum, part II, deals with subsidiary questions. They have reviewed the existing position particularly in regard to borrowings in the country. They have even referred to rules that are in operation. They have referred to the practice of borrowing in relation to the Provinces. I think in this third paragraph of that Memorandum they have put forward very sound proposals, and the Provinces should be glad to accept them without any further discussion. That is my humble opinion..

SIR AKBAR HYDARI: It is purely in regard to the Board of Loan Commissioners which they have put down there that I said it should be a Board of a kind consisting of

Finance Ministers of the unit and representatives of the Reserve Banks. The proposals here are absolutely the same as I had in mind, only with regard to a Board of Loan Commissioners.

SIR SAYED SULTAN AHMED: As a matter of fact this is reproduced in a smaller paragraph in the Lord Chancellor's Memorandum, paragraph 30, which I had been supporting.

MR. IYENGAR: The difference is that they have now put down the rules in connection with borrowing from the Provincial Governments. Our suggestion is that it should be in the hands of a Loans Board.

SIR C.E. WOOD: Would Sir Akbar retain the right to go outside the Loans Board for external loans?

SIR AKBAR HYDARI: I made myself clear that I think, in common courtesy, I am debarred from saying what my opinion is as to what should be done with regard to the Provinces.

What I suggest is the unit itself, because I am convinced that in that way it would get the best terms for itself.

SIR C.E. WOOD: In the interests of the whole Federation

THE CHAIRMAN: Anyhow, I think we are clear as to the view which is taken by the States. I am not sure whether your question applies to this that if the States once come on the Board they would then not act otherwise.

COLONEL HAKSAR: I do not know what Sir Evelyn Wood means by asking that question. I did not want to interrupt, but might I draw his attention to this: "It is not impossible that in the working of such arrangements a definite conflict might arise between the Finance Minister and a particular Province". This has reference to a previous paragraph

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where, having talked about a Board of Loan Commissioners, this Memorandum makes it perfectly clear that whereas there would be an Advisory body, and a very useful body for the purpose of going to the market, etc., the Finance Minister of the Federal Government would still have over-riding authority.

SIR C.E. WOOD: No, it would not be an Advisory Board.

COLONEL HAKSAR: I am talking about the actual provision of the Memorandum.

SIR C.E. WOOD: I am not in entire agreement with that Memorandum.

COLONEL HAKSAR: I was pointing out the recommendation which is here contained. That is all I was saying. You may not agree with it.

SIR C.E. WOOD: It was not my suggestion entirely.

COLONEL HAKSAR: It says "It is not impossible that in the working of such arrangements a definite conflict might arise between the Finance Minister and a particular Province. It would then be open to such Province to withdraw from the Loan Fund arrangements and stand on its own credit".

SIR AKBAR HYDARI: My position is that it should not be merely an Advisory Board, but, an Executive Board.

MR. IYENGAR: That is my opinion.

SIR AKBAR HYDARI: It should be unless and until all the loans which have been taken on the joint security of the whole Board have been paid off.

SIR C.E. WOOD: I have not gone quite so far as that, but I do agree that it should be an Executive Body and not

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Advisory; but it might be advisory to the Provinces if they decided to try to float a rupee loan, having failed to get a loan from the Board - if they decided to try to float a loan themselves. But that, I think, would never happen.

SIR AKBAR HYDARI: It would not happen because before it had come to the Board of Loan Commissioners the financial propriety of raising the loan would have been explored by the authority which has general supervisory powers over the financial stability of the Provinces.

MR. IYENGAR: If you wish the legislative authority to be supreme, all well and good.

SIR AKBAR HADARI: That is a different matter; but I say that is always a condition precedent, is not it, before you decide upon having a loan?

THE CHAIRMAN: I should just like to ask another question about this body, whether we call it advisory, or co-ordinating or controlling. It is suggested that it should consist of the Finance Ministers of the Provinces, and I suppose the Finance Minister of the Federal Government.

SIR M. DADABHOY: Of the Government of India; that is what Sir Walter Layton suggests.

THE CHAIRMAN: I say I am going to ask a question on that. All these questions about loans are coming up at different times of the year, and so on. Would it be practicable, do you think, to have all these Finance Ministers, who are pretty well engaged in their own work in their different Provinces, constantly meeting at Delhi or somewhere in order to consider the question of co-ordinating these loans?

SIR C.E. WOOD: They already meet once a year, I think in Delhi.

THE CHAIRMAN: I am saying that that is all very well, to meet once a year, but they would have to meet a good many times a year.

MR. IYENGAR: No.

THE CHAIRMAN: Well, may I just make my point? You object before you know what I am going to say.

I should have thought that you required something more permanent in that way: people who would be constantly examining the matter. They have to keep in touch with the position in the Provinces, and with the loan question and so on. It is not merely a question of meeting together for a few days once a year, is it, and weighing up whether certain loans should be granted? It is a continuous process. Could the Finance Ministers discharge that business in addition to their own work?

SIR AKBAR HYDARI: There would be the Reserve Bank; it would be inconstant touch.

THE CHAIRMAN: We have not got our Reserve Bank yet.

SIR AKBAR HYDARI: The Board of Loan Commissioners would not consist merely of Finance Ministers; there must be this expert representation.

SOLONEL HAKSAR: We are not directly concerned on this side, but may I tell you for your information -

MR. IYENGAR: There would be permanent officials who would be in charge of the administration of this fund; they would always constantly watch and report; and, if necessary, they would convene a meeting of this Board.

SIR C.E. WOOD: The difference on that point between Sir Akbar and myself was that I suggested a separate Advisory Committee of financial experts, and he would include them in the Loans Board, which I think would be better if it is practicable.

SIR AKBAR HYDARI: This is for loan purposes;

it is not for advising with regard to the financial propriety of any legislative measure.

SIR C.E. WOOD: Oh no.

SIR M. DADABHOY: Sir Edgar, you are referring to financial experts. May I know whether you are referring to financial experts of the Government of India?

SIR C.E. WOOD: Non-political.

SIR M. DADABHOY: Experts of the Imperial Bank?

SIR C.E. WOOD: The Reserve Bank, a retired Finance Member possibly, a retired Accountant General. I only instance these as possibilities.

SIR M. DADABHOY: Then you will require the constant services of an expert from the Reserve Bank on this Board.

MR. IYENGAR: It will be in charge of a Secretary.

SIR C.E. WOOD: I do not think this Board is going to have very constant work.

SIR M. DADABHOY: I believe it will have a good deal of work - work which will be continuous.

MR. IYENGAR: Then you will get the necessary expert staff.

SIR R. HAMILTON: The programme for the year would be placed before them by a certain date.

SIR M. DADABHOY: Is the programme for the year always settled beforehand? You never can keep to your financial programme.

THE CHAIRMAN: Question 11 is as follows:

"Should the Federal Government have any control over Provincial borrowings?"

The answer is: yes, it should have power in combination with the Provinces both of co-ordination and control.

That is the answer to that.

SIR SAYED SULTAN AHMAD: Until the Reserve Bank, yes. The answer is given in paragraph 31 on page 8. I submit that should be the answer.

THE CHAIRMAN: Then question 11 goes on:

"Should there be a Federal Loans Fund?"

I think it is agreed that there should be a federal Loans Fund.

MR. IVENGAR: Yes, and a Federal Loans Board.

THE CHAIRMAN: For the moment I was answering the question in No. 11. As to the machinery, I do not think the Committee has entirely made up its mind as to the exact form that machinery should take, what it should be called, what its functions should be and how it should be composed.

MR. IVENGAR: We can explain the different points of view if we consider it necessary; but I think the proposal of a Federal Loans Board should be there, whether it is acceptable to the whole of us or many of us. I shall be able to show tomorrow, if I get the chance, that it will have a very important bearing on the other questions connected with the Central Legislature.

THE CHAIRMAN: With regard to the States: the States wish, I understand, to reserve the right of going into the market and borrowing as they do now; but they

would like to have the right of becoming Members. Would that be the way to put it? They would like to have the right of becoming members of this Federal Loans Board, and in that case they would abide by the rules and regulations of that Board.

COLONEL HAKSAR: Voluntary adherence.

THE CHAIRMAN: Yes, they would agree, and so far would surrender their freedom.

COLONEL HAKSAR: Yes.

THE CHAIRMAN: With regard to the Provinces, the Provinces are quite prepared to join in that Federal Loans Board, to accept its conditions, and (on this I am not quite sure) to agree not to borrow outside.

SIR SAYED SULTAN AHMAD: I have formulated my views. The Provinces during the transitory period at least should be compelled to go to the Federal Loans Fund. That is, they cannot go to the open market.

SIR C.E. WOOD: The Federal Loans Fund or Board?

SIR SAYED SULTAN AHMAD: Well, I call it Fund.

SIR C.E. WOOD: That is quite a different thing.

SIR SAYED SULTAN AHMAD: Well, call it Federal Loans Board. The Federal Loans Board should be the Federal Government's Board. The constitution of the Board will be that the Finance Minister of the Government of India will be the President; there will be the Auditor General of the Provincial Government and the Financial Secretary. These will be permanent.

THE CHAIRMAN: Is it necessary to go into these details?

SIR SAYED SULEMAN AHMAD: As the constitution has to be referred to, it will be a Government of India Board, anyhow - a Federal Government Board.

SIR C.E. WOOD: No.

DR. SHARAFAT AHMAD KHAN: No.

SIR SAYED SULEMAN AHMAD: Well, that is my view.

THE CHAIRMAN: You want a Federal Government Board with representatives of the Provinces on it?

SIR SAYED SULTAN AHMAD: Yes, with representation of the Provinces; but it must be a Federal Government Board.

THE CHAIRMAN: It must clearly be a Federal Government Board if it is going to be responsible for raising the money or providing the money.

SIR SAYED SULTAN AHMAD: Yes, but it may have representatives from all the units; that is a different matter.

THE CHAIRMAN: And you would say that, at any rate during a certain period, the Provinces should not have the right to go to the open market?

SIR SAYED SULTAN AHMAD: No, they should not have the right to go to the open market.

SIR AKBAR HYDARI: I should like to make one point clear. I would not call it the Federal Government Board; I would call it a Board.

SIR C.E. WOOD: Yes.

SIR AKBAR HYDARI: It would be a statutory body independent of either the Federal Government or the federating units or anything.

MR. IYENGAR: I entirely support you, Sir Akbar; that is what has been all along in our minds. I had intended to say more upon it but perhaps we are coming to a conclusion now.

THE CHAIRMAN: I am not quite sure about that. What does that mean? Does that mean that this statutory Board has got the right to pledge the credit of India to any extent?

MR. IYENGAR: Yes.

SIR C.E. WOOD: No, under directions of the Federal Government.

THE CHAIRMAN: But it is one thing or the other.

SIR C.E. WOOD: It must first be asked by the Federal Government to raise the money.

THE CHAIRMAN: That is the point I am on, and I say no Government could possibly allow a statutory Board composed of certain individuals to pledge its credit to any extent; it is absolutely unthinkable. The Federal Government must retain the right.

SIR M. DADABHOY: The result would be that the Government of India would be subordinate to this Board.

THE CHAIRMAN: No.

SIR M. DADABHOY: That would be the result.

SIR C.E. WOOD: May I explain, Sir? The Federal Government would address the Board to the effect that it required it to borrow on its account certain monies which it had decided were required by the Federal Government and the Provinces.

SIR M. DADABHOY: That is distinctly a position of subordination.

THE CHAIRMAN: That is a different thing.

SIR C.E. WOOD: It must emanate from the Federal Government.

THE CHAIRMAN: There the statutory Board has no right whatever to pledge the credit of India; it is exactly the opposite. It has so far got the right as it is ordered by the Government to act as its agent in so doing.

MR. IYENGAR: Quite so; that is what we meant.

SIR M. DADABHOY: You did not mean that.

SIR SAYED SULTAN AHMAD: You did not mean that.

SIR M. DADABHOY: The ultimate decision must remain with the Federal Government.

MR. IYENGAR: The ultimate decision, yes. If you think it necessary to consider it further, we can discuss it tomorrow.

THE CHAIRMAN: You can discuss it, if you like, in your general statement.

SIR C.E. WOOD: Once the Federal Board starts to take action, it becomes the responsible body.

THE CHAIRMAN: Under the orders of the Federal Government.

SIR M. DADABHOY: You want to make it not only a responsible body; you want to make it an independent body.

SIR AKBAR HYDARI: From my point of view to call it a Federal Board is a misnomer. The Government of India is as much a part of it and as much controls it as the Federating units; and it controls the federal finances as much as the finances of the Governments of any Provinces.

THE CHAIRMAN: We will suspend for a moment the question of its name, shall we?

MEMBERS: Yes.

THE CHAIRMAN: Time is getting on. There are two short questions here which I think we can answer almost without discussion:

"12. Should Provincial balances be kept with the Federal Government pending the establishment of a Reserve Bank?"

The answer to that is: yes.

MEMBERS: Yes.

THE CHAIRMAN: Question 13 is:

"How are the revenues and expenditure of the British Indian Provinces which are not Governors' Provinces to be treated?"

They will, of course, become federal. The answer is: Federal.

SIR SAYED SULTAN AHMAD: Federal.

COLONEL HAKSAR: Not necessarily.

MR. IYENGAR: With regard to question 12,

When there is a separation of the Federal and Provincial authorities, the Provincial Governments may want the balances to their own credit.

THE CHAIRMAN: They would be credit with the

Federal Government.

MR. IYENGAR: I mean today, as Your Lordship will recollect, the Provincial Governments have been objecting to a good deal of their balances remaining idle with the Central Government. It is only recently that they agreed to give them some very small interest on these balances. They may think that if they get their own balances in their own hands they will be able to use them to much greater advantage.

SIR M. DADABHOY: There is much to be said on both sides.

MR. IYENGAR: We have no objection to it forming part of the Federal.

THE CHAIRMAN: You have no objection to that.

THE CHAIRMAN: Then as regards Provinces which are not Governor's Provinces, your point, Colonel Haksar, is that some of the Provinces might possibly take over some of these areas.

COLONEL HAKSAR: That was not in my mind. We might find, after examining the requisition and after going further into the Federal resources and the Federal expenditure, that the subsidies that may have to be given for the relief of the Provinces --- (Colonel Haksar was here interrupted).

THE CHAIRMAN: You might take at once the North West Province.

COLONEL HAKSAR: We may be driven into the position where we may have to suggest that that should be a charge on Central revenues. I am not saying that finally. That is why, on the very first day that I spoke in this Committee, I said it was extremely necessary from our point of view that we should know what the Federal resources are going to be and what the Federal heads of expenditure are going to be.

THE CHAIRMAN: Do you mean to say that you do not wish to answer at once in the affirmative -- that is to say, that the Federal Government should be responsible, ultimately I mean, for the revenue and expenditure of the British Indian provinces?

COLONEL HAKSAR: Not at this stage. I am not in a position to say now that the expenditure and the revenues

of the Provinces, other than Governors' Provinces, should be assured by the Federal Government.

THE CHAIRMAN: I only wish to ask this. Supposing they are not assumed by the Federal Government, who would deal with the North West Frontier Province?

COLONEL HAKSAR: Who is going to shoulder the whole of the debt? Are we quite clear that the whole of the debt of India is going to be shouldered by the Federal Government?

THE CHAIRMAN: We have not finished the discussion on that question. I should assume myself that of course it would be shouldered by the Federal Government.

COLONEL HAKSAR: If that were so, it would follow logically that the expenditure and revenues of the Provinces other than Governor's Provinces should also go to the Federal Government. But that point is in doubt.

THE CHAIRMAN: I am still puzzled as to who would shoulder the responsibility for the North West Frontier Province.

COLONEL HAKSAR: From my point of view it does not make the slightest difference, in so far as we have agreed that when federation comes there will be one common Budget, and pro forma ^{the} two sides really does not matter. It would be purely a matter of accountancy, as I hope to show when we discuss question No. 2. Both both on principle and

from the point of view of accountancy it may become necessary to credit the revenues of these Provinces to the other branch -- to the other side -- of the Budget.

SIR M. DADABHOY: What branch?

COLONEL HAKSAR: Central. Are we agreed that the whole proceeds of the Income Tax will be credited to the Central Government?

MR. IYENGAR: We shall make proposals on that.

COLONEL HAKSAR: Those two questions still remain to be answered. Are we agreed that the whole proceeds of the Income Tax will be credited to the Central Government?

SIR M. DADABHOY: We will give you our definite proposals tomorrow.

COLONEL HAKSAR: I ask you to appreciate that these questions do arise. Please do not mistake my meaning. I am not saying one way or another. What I am saying is that the reply to this question, from the point of view of the States, is to a very great extent dependent on the reply to those two questions. The other day we discussed the question of debts covered and debts not covered, and even I very glibly said that so far as debts which are covered by assets are concerned, they may be taken over by the Federal Government.

SIR M. DADABHOY: I know you will agree ultimately to take over everything!

Colonel HAKSAR: I hope you will make it possible for us to do so.

THE CHAIRMAN: Gentlemen, can we get any further? Apparently we must wait now for the statement which is to be made tomorrow.

SIR M. DADABHOY: I think we shall have to argue No. 2 first.

THE CHAIRMAN: I am a little disappointed. I thought No. 13 would be accepted without argument.

MR. IYENGAR: That is what I thought.

SIR M. DADABHOY: I agree. I am quite prepared to accept it.

THE CHAIRMAN: If you have nothing more to say for the moment on this question of the non-Governors' Provinces, I think we had better close our session.

COLONEL HAKSAR: I have stated my position, namely, that at the present stage I am not prepared to state my case.

THE CHAIRMAN: If you are not, I think we cannot press you further.

SIR M. DADABHOY: May I ask one question, Colonel Haksar? Would not the Federal Government take up the expenditure of the Province of Delhi?

COLONEL HAKSAR: What is the use of asking that question? Would it give you any great satisfaction if I said it would?

SIR M. DADABHOY: If it would, then the others must come.

SIR AKBAR HYDARI: What is the Province of Delhi?

SIR M. DADABHOY: It is the Capital of the Federal Government.

SIR AKBAR HYDARI: But included in that is a very much larger area, which might perhaps go to one of the Provinces.

(The Committee adjourned at 4.40 p.m. until 11 a.m. on the following day).

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Meeting
(Draft)

INDIAN ROUND TABLE CONFERENCE
(Second Session)

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FEDERAL FINANCE SUB-COMMITTEE

STENOGRAPHIC NOTES of the Meeting of the
Sub-Committee held at St. James's Palace,
S.W.1., on Friday, the 2nd October 1931,
at 11 a.m.

BRITISH DELEGATIONS.

Lord Peel (Chairman)

Also present:-

Sir R. Glancy
Mr. G. H. Baxter
Mr. F. P. Robinson
Mr. H. A. F. Rumbold

Secretaries.

Mr. Laithwaite
Mr. Fitse
Mr. Patrick
Mr. Lewis
Professor Coatsman
Mr. Stopford
Mr. Garratt

INDIAN STATES DELEGATION:

Sir Akbar Hydari,
Sir Mirza Ismail,
Colonel Haksar
R. B. Krishnama Chari

Also present:-

Sir P. Pattani
Sir E. Mehta
Sir R. Chenevix-Trench
Pandit Atal
Mr. G. N. Joshi
Mr. Gulam Muhammad
Mr. Singaravelu
Mr. Rushbrook Williams
Mr. Young

Secretaries.

Mr. M. S. A. Hydari
Mr. Madhava Rao

Secretariat-General,

BRITISH INDIA DELEGATION.

Sir Maneckjee Dadabhoy
Mr. Iyengar
Sir Sayed Sultan Ahmed
Dr. Shafa'at Ahmad Khan
Sir C. E. Wood

Secretaries.

Sir Geoffrey Corbett
Mr. Latifi
Mr. Bajpai
Mr. Rama Rau

SECRETARIAT-GENERAL.

Mr. Carter (Secretary-General)
Mr. Anderson
Mr. Sladen
Mr. Deshmukh

THE CHAIRMAN: Before I call upon Mr. Iyengar, Mr. Krishnama Chari wants to say just a word.

MR. KRISHNAMA CHARI: When I spoke on the issues raised in question 10, I stated broadly that my views were more or less those set out in paragraph 31 of the Government of India's note. I think it will conduce to clearness if I state them definitely.

The underlying principle is clear. For purposes of the future Federal Constitution, we seek to assess the burden of defence, and other common burdens, on a basis of equality, on each unit of the Federation. A unit which has made or is making towards defence contribution which all the other units are not making and have not made is, therefore, entitled to ask that this should be taken into account and compensation paid for them before it is called upon to undertake the full share of its obligations as a unit of the Federation; that is, in other words, that it should be placed on a footing of initial parity with other units. Otherwise a few States will pay twice over for the same burden. The principle that compensation should be paid for such special contributions is as binding as the principle that, once a State comes into a Federation, it must bear its full share of the burdens, present and future.

I shall first deal with cash payments or tributes. These should certainly be extinguished as each State enters the Federation, and I strongly support what has been said on this question by Sir Mirza Ismail.

Secondly come "Ceded Territories". There are three States concerned in this: Hyderabad, Baroda, and Gwalior. I have since heard that Sangli has a claim under this head. If so, this is a fourth case. The facts relating to these

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are familiar. At first cash payments were fixed in all cases, and the payments were for the same purpose in the case of every State, as will be evident from the Treaties. In their nature and origin, therefore, there is no distinction between "cash payments" and "ceded territories".

Some idea of the amount of subsidy fixed may be useful. In view of Sir Akbar Hydari's statement the other day, I do not include Hyderabad:

<u>State</u>	<u>Population</u>	<u>Lakhs of Rupees.</u>
Baroda	2½ millions	24.31.
Mysore	6 "	25.
Travancore	5 "	8.
Cochin	1 million	2.

The figures will make apparent the relative heaviness of the contribution of the States of Baroda and Mysore. Later on, these cash payments were replaced by cessions of territory in some cases. The guiding consideration was that the East India Company desired to have territories ~~areas~~ in the ~~States~~ concerned. When the yield from the territories was found less than the original cash payment, additional territories were asked for and ceded. In the case of Baroda the territories were ceded for the maintenance of troops, 4,000 Infantry and 1,000 Cavalry. The bulk of this force is now incorporated in the Indian Army. The disproportionate share of the burden of defence borne by Baroda has been the subject of complaint for many decades, and in the last few years the subject has been raised several times.

I shall not go into this any further as I have explained the real nature of these Cessions. I shall content myself with stating a few salient points.

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In the first place, the States concerned in this - leaving out Hyderabad for the reason already given - are only two, Baroda and Gwalior, and probably three, if Sangli be included, the original value of the territories in the case of Sangli being 1.35 Lakhs of Rupees a year.

Secondly, the facts relating to the ceded territories have all been ascertained in consultation with the States concerned, and are already on record. There is no need for any further enquiries and the basis of assessment and the nature of compensation can be settled with the utmost ease and in a very short time.

Thirdly, the compensation which may have to be paid, whatever the basis may be, will be not at all heavy. This indeed is stated by the Government of India. On these grounds, I consider that this settlement should be made with the two or three States concerned and given effect to at once.

In this connection I respectfully emphasize the statement of the Government of India that it is only by offering to the States a fair settlement based on the special circumstances of individual cases that several States of the first importance can be attracted into the Federation.

THE CHAIRMAN: What is roughly your idea of the basis of compensation?

MR. KRISHNAMMA CHARI: We shall accept any reasonable basis as far as Baroda is concerned. We are prepared to discuss the basis. All the relevant facts with regard to the basis of compensation are on record, and anything arrived at by negotiation will be accepted.

SIR M. DADABHOY: You are referring to Baroda, Gwalior and Sangli?

MR. KRISHNAMMA CHARI: I presume the basis would be the same for all the States. I have not talked to Gwalior.

THE CHAIRMAN: It may be so many years' purchase of something, or what?

MR. KRISHNAMMA CHARI: Whatever it may be. It may be a quid pro quo with regard to claims in dispute; supposing there are questions in dispute with regard to certain points, the two may be set off.

THE CHAIRMAN: As part of a general bargain?

MR. KRISHNAMMA CHARI: As part of a general bargain. I prefer an equitable settlement of the claim so that this may not be left over and constitute a sort of grievance.

There is no idea on the part of the States concerned to drive what may be called hard bargains.

Thirdly, there are the State Forces. Here again the compensation payable should be settled after examination. If the adjustment to be made is found to be heavy, the process of adjustment should be spread over an appropriate period of years. There should be a definite scheme, so that there may be no point of conflict between the future Federal Government and the units concerned. I have already dealt with the Maritime States. The position in regard to them should be as follows. Each State will come in with its own treaties and agreements. Where disputes exist in connection with rights claimed and the interpretation of treaties and agreements, there should be a settlement, in the words of the Government of India, "independently of the constitutional discussions and prior to any constitutional change in the Government of India".

THE CHAIRMAN: Prior to?

MR. KRISHNAMA CHARI: Yes. That is what the Government of India state in their memorandum.

SIR M. DADABHOY: Paragraph 31 of the Government of India memorandum.

DR. SHAHJAHAN AHMAD KHAN: The Government of India are not committed to anything in the memorandum.

MR. KRISHNAMA CHARI: I do not say that the Government of India are committed; I say that is what is in their memorandum. What I say is that if substantial

rights are in doubt naturally the unit cannot make up its mind whether to enter the Federation or not.

SIR M. DADABHOY: You said the same thing yesterday.

MR. KRISHNAMMA CHARI: Yes. The terms of entry into the Federation should be negotiated with each State in accordance with its peculiar condition.

MR. IYENGAR: Do you mean not only from the financial but from other points of view?

MR. KRISHNAMMA CHARI: I am talking only about the financial point of view.

I thank you, Sir, for giving me this opportunity of making this statement.

SIR M. DADABHOY: May I ask one question for information You said that otherwise a few States would pay twice over for the same burden. I do not exactly understand that.

MR. KRISHNAMMA CHARI: If some of the States have already paid a proportion of the cost of the defence of India by cash payments, cession of territories, and so on, and if these payments are not compensated for and they are asked to bear also the future burdens, naturally they pay twice over.

SIR M. DADABHOY: I do not quite follow that.

THE CHAIRMAN: Take the case of a State which has got a regiment of cavalry costing a certain amount and which comes into the general scheme of organisation of the Indian Army.

MR. KRISHNAMMA CHARI: You are speaking about the State Forces?

THE CHAIRMAN: I am talking about a State Force which is

actually ear-marked as part of the organisation and which costs a certain amount -- we will say a regiment of cavalry. What does your scheme imply? Is it that that State should be paid as long as that regiment of cavalry is maintained up to a certain standard of efficiency?

MR. KRISHNAMMA CHARI: Up to a certain standard of efficiency.

THE CHAIRMAN: If the officer responsible says "I do not want that regiment" or "We do not think it is efficient", then there is no more payment to that State; is that so? I only want generally to try to understand your basis.

MR. KRISHNAMMA CHARI: I think the basis should be if the troops performed a definite function in relation to the defence of India and are maintained at the cost of the State there should be a certain basis for compensation.

THE CHAIRMAN: That is not quite compensation, is it? Compensation is very often paid in lieu of some right which is extinguished.

MR. KRISHNAMMA CHARI: It is reimbursement, rather, or financial adjustment.

THE CHAIRMAN: That is what I want to be clear about. You do not want a sum in compensation for the past?

MR. KRISHNAMMA CHARI: No, all my remarks apply to the future, after Federation comes into existence.

THE CHAIRMAN: That is very satisfactory, if you are looking to the future only. I wanted to be clear on that point.

MR. IYENGAR: I have been asked by the representatives of the British Indian Delegation on the sub-Committee to state the proposals which, after discussion amongst ourselves, we consider should be the basis upon which this sub-Committee should report to the Federal Structure Committee.

SIR A. HYDARI: Before you proceed, may I say that I do not know why Mr. Krishnama Chari has understood my statement to mean that Hyderabad does not associate itself with Gwalior and so on.

MR. KRISHNAMA CHARI: I did not mean that. I certainly realise that the case of Hyderabad is on all fours.

SIR A. HYDARI: I associate myself with what you say.

MR. KRISHNAMA CHARI: I am grateful to you for making that statement.

SIR A. HYDARI: I have not given up anything.

THE CHAIRMAN: I do not think anybody would accuse you of that!

MR. IYENGAR: In making this statement we propose to cover the entire ground of the reference and the questionnaire which has been put to us, so that we may shorten discussion on the whole position. In preparing this statement of our case I may say we have had the valuable services of the secretaries, and particularly of Sir Geoffrey Corbett and Mr. Rama Rau, who has been helping us throughout.

Before explaining the scheme we have in view I shall very briefly refer to the principles upon which, in our opinion, a system of Federal Finance for India should be based. They have

in fact been stated clearly by Sir Sultan Ahmed in his speech on Tuesday last. We realise, of course, the difficulty of applying them in practice, and in the scheme we have formulated we have given full consideration to the peculiar difficulties of the Indian States.

Our first point is that internal customs barriers between the constituent units of the Federation should as far as possible be removed. That is our first point.

THE CHAIRMAN: You are just laying down the principle now; are you going to make any comments afterwards?

MR. IYENGAR: Yes, I am following it with comments. The second point is that Federal taxation should apply equally to all parts of the Federation. The third is the right to impose and administer a tax should be vested in the authority which receives the proceeds. The fourth is that Federal communications (railways, posts and telegraphs) should be self-supporting, but should not be worked for profit as a means of taxation. In other words the profits, if any, of these services should not be diverted to general revenue.

THE CHAIRMAN: Under no circumstances, do you mean?

MR. IYENGAR: That is the basis upon which we would work the railways.

SIR A. HYDARI: On what basis would the profits be calculated?

MR. IYENGAR: I am going to deal with all that later on.

MR. KRISHNAMA CHARI: Will you kindly give us that last point again?

MR. IYENGAR: Federal communications (railways, posts

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and telegraphs) should be self-supporting, but should not be worked for profit as means of taxation. In other words, the profits, if any, of these services should not be diverted to general revenues.

Lastly, while Federal revenues must, in the peculiar circumstances of the Indian States, be derived mainly from indirect taxes, the Federal Government should have access to some direct source of taxation. A well-balanced system of taxation must be partly direct and partly indirect. The importance of this has been emphasized in paragraph 36 of the Finance Department memorandum. The revenue from customs will inevitably decline where there is an intensification of protective policy and the profits of indigenous companies, and also, of course, the income-tax on these profits, will correspondingly increase.

Apart from this fact, indirect taxes impose a disproportionately heavy burden on the poorer classes, and a system of taxation based entirely on indirect taxes must necessarily involve hardship to the poor. Consequently every Federation which began with only indirect taxation has been forced by circumstances to levy a direct graduated tax on incomes or profits of companies in some form or other. In at least two cases - the United States and Switzerland - a formal amendment to the Constitution was necessary to empower the Federal Government to levy the tax. We hope, therefore, that the Indian States will not object to the very limited access to direct taxation which we propose in our scheme. I will come to it presently, Sir.

Before I deal with the distribution of taxes according to the principles we have enunciated above, we must examine the necessity for a separate Central budget as distinct from the Federal budget. The necessity for this arises from the difficulty of providing for the service of the pre-Federation debt, for the only other subjects which are classed as Central by the Federal Structure Committee last year and which will involve any appreciable expenditure are the Archaeological Department and the Zoological Survey. We do not see any administrative or other difficulty in the way of making these subjects either Federal or Provincial.

This leads me to the question of the treatment of the pre-Federation debt. In this matter we disagree with the view taken by the Finance Department of the Government of India,

For the reasons explained in the Note circulated I find, Mr. Chairman, that the second Note on the pre-Federation debt has not been circulated to all the members of the Committee, and I therefore ask, for the purposes of my argument, that you will kindly permit me to read the whole of it and to treat it as part of my statement. It is as follows:

"The table which has already been circulated (and of which a copy is reproduced below for convenience of reference) is extracted from the annual budget volume, and is designed to show the extent to which the Public Debt and other interest-bearing obligations of the Government of India are offset by interest-yielding and liquid assets. It does not purport to be a complete balance-sheet of the Central Government. The borrowings of governments are in the nature of things not restricted to what is required for investment in commercial or productive undertakings, and it is probable that no important country, even at the time of its fullest prosperity, has been in a position to show the whole of its debt as covered by assets of this nature. It would be absurd to suggest that therefore every country has been continuously insolvent as would be the case with a commercial company which showed a deficiency of assets as compared with liabilities. A country's borrowing is conducted on the security of its credit and of its revenues, actual and potential.

The Government of India, like most other governments, have at times had to increase their debt, owing to revenue deficits. Such debts, legitimately incurred in tiding over periods of

"difficulty or emergency, form a reasonable charge on the whole undertaking of government, even when not represented by specific tangible assets. On the other hand, large allocations have been consistently made from revenue for the reduction of debt and for capital expenditure.

Even as regards the productive assets included in the table above, it will be observed that the figure against railways, for instance, is not an estimate of the actual commercial value as a going concern, but represents merely the capital invested. The railway proceeds in a normal year are sufficient for payment of a contribution to general revenues of over Rs. 5 crores, in addition to meeting the whole of the interest charges on the railway debt. The capitalised value of this additional profit, though it cannot be estimated with exactitude, might well amount to as much as Rs. 100 crores. Again, the valuable assets of the Government of India are not limited to those which actually earn annual profits. The Federal Authority will presumably succeed to the whole of the buildings and public works of all kinds which at present are the property of the Central Government. The replacement value of these is of course an enormous sum, though there are no exact data at hand for evaluating it.

"Although the loans and other obligations are shown in the table as partially offset by certain assets, it will be understood that loans are as a rule raised for general purposes and not earmarked for specific objects; their proceeds go into a general pool. The particular items of debt cannot therefore be set off against individual assets, and it would clearly be impossible to relate the 'balance' of Rs. 177 crores shown at the foot of the table to any particular loan or other obligation. Fortunately, the question should not arise since the whole of the obligations are amply covered by assets if the term be taken in a wider sense than that used in the compilation of the table."

That, Sir, is our conclusion in regard to the pre-Federation debt. I will now deal with the principal sources of revenue.

THE CHAIRMAN: You want the Federal Government to take over the whole of the debt, to be responsible for the service of the debt, and that there should be no even pro forma entry in the Budget as laying certain of the charges of the debt upon the Provinces or on the Central Government?

MR. IYENGAR: That is so, because we propose that the Railways should be treated as not property yielding a profit.

THE CHAIRMAN: There are many points one could criticise in that, but I will reserve my remarks.

MR. IYENGAR: Customs duties and excises on articles on which customs duties are levied - with certain exceptions to which I will refer presently - should be Federal. It is necessary to assign both customs and excises to the same authority, for two reasons: (a) In the first place, if Customs were Federal and Excises Provincial it would be possible for a Province, or for a State, to defeat the object of a protective duty, by the levy of a countervailing excise on the article; (b) in the second place, when the protective duty on a certain article becomes effective, the yield of the customs duty goes down, and is sometimes reduced to nothing; and the Federal Government would be in a position to protect its revenue by the levy of an excise. A good example of this is the duty on matches levied in 1922. The high revenue duty imposed in that year resulted in the development of a

match industry in India, and the revenue from the duty on imported matches is now almost negligible. The question of an excise on matches has therefore been seriously discussed in recent years.

The exceptions I refer to are the excises on articles which are taxed for social purposes - that is, with the object of restricting consumption; alcohol, intoxicating drugs, and perhaps tobacco.

THE CHAIRMAN: I do not like those being lumped together!

MR. IYENGAR: I am an orthodox Brahmin!

THE CHAIRMAN: I am an orthodox Christian!

COLONEL HAKSAR: Are all sins equal in your eyes?

MR. IYENGAR: This should be Provincial, and the Provinces should also be empowered to levy sur-charges on the customs duty on such articles. Otherwise the efforts of the Provincial Governments to restrict consumption could be frustrated by a lowering of the import duty by the Federal Government.

According to these principles, customs and excise on salt, petrol, kerosene, matches etc. would be Federal, while the excise on alcoholic drinks, tobacco and intoxicating drugs would be Provincial.

SIR AKBAR HYDARI: What does the "etc." mean?

MR. IYENGAR: I mean that you might find similar articles.

I know you always want to be very precise. The administration of customs and federal excises in our opinion should be under the effective control of the Federal Government. We do not want to say anything more positive, but we discussed the question as to what extent the Provincial Agency may be employed in the administration of Federal Income-Tax. This consists of : (a) the ordinary graduated income-tax; (b) the graduated super-tax on incomes exceeding a certain figure; and (c) the super-tax on companies levied at the flat rate of one anna in the rupee.

As remarked by the Government of India in paragraph 41 (3) of their Memorandum, the last is really a corporation tax or tax on companies. We suggest that it should be definitely recognised as a corporation or companies tax and allotted to the Federal Government. This would give the Federal Government one direct and expanding source of revenue. The present yield of this tax is less than 3 crores out of a total yield of 17 crores from income-tax and super-tax. The tax would not impose any appreciable burden on the Indian States, for the total capital of Joint Stock Companies in the States is only 4 per cent of the capital of British Indian companies.

COLONEL HAKSAR: 11 crores I think.

MR. IYENGAR: Probably so; it is 4 per cent.

The income-tax and super-tax should, with this exception, be made completely Provincial or State.

THE CHAIRMAN: And can be levied at different times.

MR. IYENGAR: We are dealing with it in the next paragraph.

THE CHAIRMAN: I beg your pardon.

MR. IYENGAR: Two questions arise in this connexion:- (a) should the administration and collection of the tax be entrusted to a Federal Agency? If so, what constitutional machinery should be devised to ensure that the authority that gets the proceeds also determines the rate at which the tax should be levied? (b) On what principles should the proceeds of the tax be apportioned among the Provinces having regard to the origin of the income and the residence of the recipient? The bulk of the income tax is collected at the source, and the Provinces where the tax is collected for purposes of administrative convenience cannot obviously be permitted to appropriate the whole of the proceeds. These are, however, very technical questions, which we suggest should be referred to the proposed Expert Committee.

Commercial stamps. We consider that these should also be Federal, since Commerce is a Federal subject.

SIR AKBAR HYDARI: Income-tax would be Central and uniform in British Provinces, would not it?

MR. IYENGAR: No, no.

SIR AKBAR HYDARI: Except the corporation tax.

MR. IYENGAR: No, no; income-tax would be Provincial.

MR. KRISHNAMA CHARI: It would be Centrally levied.

MR. IYENGAR: No; we are referring the whole question of the method of levy to an Expert Committee.

We do contemplate the fact that there will be a variation in the rates.

SIR AKBAR HYDARI: That is what I wanted to know.

SIR C.E. WOOD: No.

SIR M. DADABHOY: I disagree with you on that.

MR. IYENGAR: I am bound to say on this matter our views have not exactly been uniform, and that is why we have put the position for examination by an Expert Committee.

SIR M. DADABHOY: We are not unanimous as regards some of these recommendations.

THE CHAIRMAN: I can quite imagine that. This is rather your particular view, Mr. Iyengar?

MR. IYENGAR: That is what I thought we came to an agreement upon yesterday in our discussion. As far as that is concerned I am bound to say Sir Edgar Wood and Sir M. Dadabhoj said they were very particular about seeing that income-tax is levied by a Central Agency, and collected and administered.

SIR C.E. WOOD: Yes.

SIR M. DADABHOY: And at a uniform rate too.

DR. SHAFI'AT AHMAD KHAN: I emphasised in my speech that there should be uniformity of rates.

SIR C.E. WOOD: Otherwise there is restriction of trade and it is generally objectionable.

MR. IYENGAR: I agree when we drafted this we definitely said that. You see we have referred to it; we say: If so, what constitutional machinery should be devised to ensure that the authority that gets the proceeds also determines the rate at which the tax should be levied? You

see we are referring the whole question.

SIR M. DADABHOY: That is other taxes, but we made an exception in the case of income tax. At least, that is our view.

MR. IYENGAR: I cannot take it further. I merely say whether it is possible to secure this freedom for the Provinces and also uniformity, as Dr. Shafa'at Ahmad has said, is a question which may well be examined by the Expert Committee. For the present we propose that income tax, except these items, should be transferred to the Provinces.

THE CHAIRMAN: Yes, but I am left in doubt. Because you cannot agree as to whether the income tax should be levied at the same rate throughout the Provinces, you are simply leaving that to an Expert Committee. That seems to be rather beyond the power of an Expert Committee.

SIR M. DADABHOY: Sir Edgar and myself were distinctly of opinion that it should be left to the Federal Government.

MR. IYENGAR: I may say, Mr. Chairman, that we are certainly in agreement with the principle that there should be uniformity of rate; that lack of uniformity would lead to all the objections which Sir Edgar Wood and all of us see must ensue. What we were troubled with was that when you make over a source of taxation to a State or Provincial Legislature, the constitutional responsibility for raising the tax and for accounting for its proper expenditure rests with the Provincial Government or with the State Government, and we cannot by any federal legislature or federal authority detract from the responsibility which the financial Members of the Provincial or State Cabinets must owe

to the Provincial or State legislatures. It is only that difficulty. Otherwise there is no dispute that we would desire in all cases a uniform income tax levy and administration. Our difficulty is once you transfer it to the Provinces you ought not to restrict the rights of the legislatures, or, for instance, of the State Governments in respect of the manner in which they shall deal with it. Suppose it is not called income-tax.

SIR M. DADABHOY: That is merely an academic proposition; it is not practical politics.

SIR C.E. WOOD: Yes.

THE CHAIRMAN: I do not want to stop you further; but it seems to me if you refer a thing to an Expert Committee you should say that your instruction is that it should be levied at the same rate in the different Provinces. The Expert Committee can then very well look into the question of how that is to be carried out; but I do not think you ought to leave the question open.

SIR M. DADABHOY: Of course our friend here (Mr. Iyengar) has not yet grasped how it will affect the general trade of the country.

MR. IYENGAR: I am as alive to the evils of different rates in different Provinces as anybody.

SIR M. DADABHOY: Then if you are alive to that you will agree with us. You will be cutting the throats of the Provinces by this method, by allowing them to do that, because the other Provinces will suffer.

MR. IYENGAR: I am sure that Sir Maneckji and other

friends will supplement what I have got to say.

DR. SHAFI'AT AHMAD KHAN: We will make our position clear with regard to this point.

MR. IYENGAR: Yes, do, certainly.

SIR M. DADABHOY: We have made it clear before - yesterday and the day before yesterday.

MR. IYENGAR: Yes.

THE CHAIRMAN: Now let us go on, shall we, with that reservation?

MR. IYENGAR: Yes. Then, commercial stamps. We consider that these should also be federal, since commerce is a federal subject. A list of these stamps was drawn up some years ago by a Sub-Committee consisting of the Finance Members of the Provinces. It is given at page 937 of Volume III of the Statutory Commission's Report. I have got it here. We have no idea as to the extent to which these are taxed in the Indian States. This question may also be referred to the Expert Committee.

THE CHAIRMAN: What is referred to the Expert Committee - - the question as to what extent they are taxed in the Indian States?

MR. IYENGAR: Yes; and how we shall adjust any difficulty which may arise with regard to the levy of this sort of tax by the States themselves. We have got to examine whether they have any claims or objections to urge against the transfer of commercial stamps.

THE CHAIRMAN: I daresay we shall hear that here before we get to the Expert Committee.

MR. IYENGAR: Very good. Now with regard

to the classification of commercial and non-commercial, judicial and non-judicial stamps, there has been a considerable discussion. For instance, while judicial stamps are Provincial, non-judicial stamps are Central today. Provincial Finance Members have continually met in Conference and have made various claims upon the Central Government for compensation and things like that. That is a thing which would be met by an expert examination. Then, federal communications, Railways, Posts and Telegraphs. As I have already explained, these services should be just self-supporting. This principle has already been recognised in the case of the Posts and Telegraphs Department. The profits of this Department, if any, are not credited to general revenues, but are taken in reduction of the capital at charge on which interest is calculated.

Similarly losses raise the capital charge, and consequently the interest charges debited to the Department.

The same principle with appropriate modifications, we suggest should be applied to the Railway Department, which should cease to contribute to general revenues; but service of railway debt and Sinking Fund should be a charge on the Railway Budget. This would not affect the budgetary position, for while Railways contribute a sum of over 5 crores of rupees to general revenues, a slightly larger sum is provided from general revenues for redemption of debt, most of which was incurred for the construction of Railways. That is the present budgetary position.

THE CHAIRMAN: Is that so? A larger sum than 5 crores is provided from the general Budget, is it?

MR. IYENGAR: A slightly larger sum, $6\frac{3}{4}$ crores. We have two objects in view in making this suggestion:

(a) Under the arrangement suggested by the Federal Structure Committee last year, Indian States who owned Railway systems would retain the profits of their Railways, and would also share in the profits of the British Indian Railway System, which would be credited to Federal revenues and utilised for Federal purposes. Our proposal would remove this anomaly. The States would, of course, retain the profits of their Railways, but they would not participate in the profits of the Railways outside, since these latter would cease to make a contribution to Federal revenues.

(b) If Railways were made only self-supporting, it should, in our opinion, be possible to permit Provinces and States to levy a terminal tax on goods. The tax would, of course, be subject to a maximum (say 3 per cent ad valorem) to be fixed in the Constitution, and to such other restrictions as may

be necessary in the interests of Trade and Commerce. For instance, there should be no discrimination according to origin which might conflict with commercial Treaties with foreign Governments entered into by the Federal Government.

This proposal would render it possible for the States to get rid of their Customs barriers, for a terminal tax would in most cases yield as much^{as} if not more^{than} the Customs duties. We are aware of the serious objections to the levy of a terminal tax, but we consider that the disadvantages of an internal Customs barrier are much more serious. This provincial or terminal tax would also replace terminal taxes levied by individual local bodies, which might receive compensatory grants from Provincial funds.

It has been stated on behalf of the States that if the States could be compensated for the loss of their Customs revenue, they would be prepared to abolish Customs duties. A cash compensation would, however, be unfair to the British Indian Provinces, for it would mean the substitution of a tax paid by the whole of India for a tax the burden of which falls entirely on the subjects of the State. Compensation in such cases should, in our opinion, take the form of a new tax on the inhabitants of the State. The proposed terminal tax would be a suitable substitute, and would be particularly welcome to States through which British Indian Railways now pass.

I now come to the very difficult question of tributes. we have already emphasised the importance of the principle that Federal taxation should apply equally to all parts of the Federation. Tributes or contributions from Indian States could on this principle be unjustifiable, unless similar

contributions were demanded from British Provinces, and from Indian States which at present pay no tributes. In our opinion, tributes should be abolished on the introduction of a Federal system of Government.

The question of compensation to States which have in the past ceded territories in lieu of cash payments has been raised. We agree that these claims should be investigated by an impartial tribunal, but, without a knowledge of the circumstances of each individual case, we cannot express any final opinion as to whether these claims to compensation stand on the same footing as tributes, but if investigation shows that the two claims are similar we are prepared to agree to similarity of treatment. That is the position so far as we have been able to reach it, and I hope that it will enable us to discuss the matter.

SIR M. DADABHOY: We have made it clear that, so far as the levy of tax is concerned, in order to ensure a uniform rate, it ought to be a matter for the Federal Government.

MR. IYENGAR: That is income-tax.

SIR M. DADABHOY: I am referring to income-tax. I differ from my colleagues on the question of super-tax. In this statement you have seen that as regards the corporation tax they have handed it over to the Federal Government. I am inclined to go further; I agree with Sir Walter Layton, as well as with the Government of India, and I go to the extent of stating that the whole of the super-tax should be handed over to the Federal Government, because I am very doubtful as to the future income of the Federal Government. I feel that the income would be of a very diminishing character, and, therefore, it must be

supplemented from certain sources which may be considered reliable and stable. I am, therefore, distinctly of the opinion that the whole of the super-tax should be handed over to the Federal Government.

We have alluded to Posts and Telegraphs. I am also inclined to qualify that statement by saying that ordinarily it should be ear-marked for the purpose of the Department, but I cannot go to the extent of agreeing that under no circumstances the surplus profits should go to the Federal Government, I am inclined to believe that if there are surplus profits, after providing for the entire Department (not only for its present necessities, but for its future necessities) the surplus should go to the general revenues.

MR. IYENGAR: I may just explain that Sir M. Dadabhoy unfortunately not able to be present at our discussions. That is the reason why we have not been able to find out how far we can come to an agreement with him.

THE CHAIRMAN: Have you anything to say, Dr. Shafa'at Ahmad Khan?

DR. SHAFAT AHMAD KHAN: I have nothing to add to what has been said by Mr. Iyengar.

SIR C.E. WOOD: I am rather inclined to agree with Sir M. Dadabhoy that this question of super-tax ought not definitely to be pronounced upon at the present moment. It seems to me a question of figures, but, if it is found that the Federal Government will not have sufficient revenues, the super-tax is the natural source from which the income might be drawn. This question of central collection seems to me quite logical,

because in any case the Central Government is going to get the Corporation tax under this scheme, but it has other very strong features, in that it is a very specialised subject. I am speaking of this question of the assessment of income-tax. We have found in practice that, unless there is very close control from a central body of specialists the interpretation of the income-tax rules of the Manual is quite different in different Provinces, which is most objectionable.

Then there is this question of the rate of the levy. It has been said that it is illogical to fix the rate in the Provinces, and for the Provinces not to collect, but my suggestion was that the rate of levy should be by a Council of the Finance Ministers of the Provinces. That is where you would get the uniformity of rate, by these Finance Ministers coming together in Council and fixing the rate. As I say, the Centre has a great interest in the collection, and I see nothing which is not in conformity with the practice, that the authority which receives the revenue should collect it, being carried out in collection by the Central authority.

The question of distribution has already been touched upon. I think that Mr. Iyengar has stressed the point that that is a question which must be gone into very carefully. I think that that is where the expert Committee should come in. Just in the same way as the Taxation Enquiry Committee studied that question very carefully, the Committee should decide how the revenue should be distributed to the Provinces, so that those Provinces with industries do not benefit unduly over the Provinces which rely entirely upon agriculture for their revenues.

MR. IYENGAR: Quite, yes.

SIR M. DADABHOY: With your permission, Sir, I should like to say one word more on the subject of super-tax. There is one point I omitted to mention in my last speech. I said that the entire super-tax, whether collected from individuals or from industries, should go to the Federal Government. That is for the simple reason that the doctrine that ordinarily direct taxation belongs to the Provinces does not apply in the case of super-tax. Super-tax is levied on a man's whole income, from wheresoever derived. A man may have business in several parts of India, in several different Provinces, and the income on which super-tax is levied may be derived from all the Provinces. Logically, therefore, that tax does not belong to the Province of origin, and therefore it ought to go entirely to the Federal revenues.

MR. IYENGAR: I should like to mention that certain necessary corrections are being made in the typed copy of my statement and the corrected copy will soon be in the hands of the members of the sub-Committee.

THE CHAIRMAN: I do not know whether the representatives of the States would like to deal with these questions at once or seriatim.

COLONEL HAKSAR: So far as I am concerned, Sir, I was going to ask your permission to offer a few observations. I cannot cover the whole ground covered by Mr. Iyengar, but I assume the statement he has read will form part of the record of this sub-Committee. What is more, it is conceivable to me that when you are drafting your report for our consideration you will have to allude to it, and it remains to b

seen how that allusion is put -- whether that allusion amounts to a recommendation of the sub-Committee or not or merely a statement of the fact that the British Indian representative put forward this point of view. The appropriate time to discuss what is contained in this statement, therefore, would seem to be when the draft report is before us.

This will also give us time to consider this statement. Mr. Rama Rau has kindly told me that he will have corrected copies distributed, and Mr. Iyengar has been good enough to say that as soon as copies are typed they will be available for us. The statement requires a certain amount of consideration by us, and I for my part am very anxious that you should have time to draft your report. I assume we shall not sit tomorrow or the next day, and that we shall be in a position to consider the report on Monday.

THE CHAIRMAN: It may be a little hard, I think, to have it ready by Monday.

COLONEL HAKSAR: Or Tuesday; just as you like. My point is that if we have two days in between and get copies of this statement we shall be able to consider it and discuss it. I am prepared to deal with one or two points now.

MR. IYENGAR: I would rather you considered the whole thing.

COLONEL HAKSAR: There are certain points which are not clear to my mind. I want to ask Mr. Iyengar first of all what his conception of a terminal tax is, and I will give you my reason for asking that question. He has practically suggested a terminal tax as a substitute for the customs duties today levilled by the States. I should like to know w

he means by a terminal tax before I go any further:

MR. IYENGAR: A terminal tax is a tax levied through the railway traffic authorities on all goods imported into the State, according to the nature of your requirements. If we give you this permission what will happen is that the railway administration will levy the terminal tax and will hand over the profits to you.

MR. KRISHNAMA CHARI: Minus a commission for collection

MR. IYENGAR: Yes, certainly.

MR. KRISHNAMA CHARI: That is the present system.

COLONEL HAKSAR: You have told me that a terminal tax means exactly what I understood it to mean.

MR. IYENGAR: Yes.

COLONEL HAKSAR: Two questions arise on that. The first is, have you any reason to suppose that the share of individual States of the proceeds of the terminal tax would be anywhere in the vicinity of what they derive from customs duties?

MR. IYENGAR: Our expectation is that it will be more than you now get.

COLONEL HAKSAR: Perhaps you will let me proceed, and then you can answer all my questions. The second is, have you any reason to suppose that certain States are already levying terminal tax?

MR. IYENGAR: We know that.

COLONEL HAKSAR: So it would be no substitution?

MR. IYENGAR: It is in substitution of the right to levy customs duties.

COLONEL HAKSAR: No. I am pointing out that certain States today are levying terminal tax in addition to their customs duties.

MR. IYENGAR: In addition?

COLONEL HAKSAR: I asked you whether you were aware of that. That is the second point. Thirdly, does it occur to you it is possible there may be States in India which are not fed by railways? How would their share of the terminal tax be determined?

MR. IYENGAR: If you will put all these questions I will try to answer them.

COLONEL HAKSAR: I have put them.

THE CHAIRMAN: You will have to refer them to an expert committee!

COLONEL HAKSAR: It is so easy to make suggestions; all one has to do is to ignore existing conditions or to be ignorant of them.

THE CHAIRMAN: I have a good many questions to put on this subject of a terminal tax, but you are asking some of them.

COLONEL HAKSAR: If I may proceed, Mr. Iyengar has made recommendations as to how the revenues earned by the present railways should be treated in the future. He has laid down the principle that railways should not be treated as a profit-making concern; they are a public utility service.

He was kind enough to add that so far as the States are concerned they may take their profits, but so far as the railways owned by the Government of India today are concerned---

MR. IYENGAR: No, the coming Federal Government.

COLONEL HAKSAR: I said the railways owned at present by the Government of India, which would be owned by the future Federal Government, should not, according to your suggestion, be allowed to make any profit. That is a matter which I want to examine, because it has a constitutional bearing.

In the Federal Structure Committee it was laid down that when Federation comes either the present Railway Board or a statutory body corresponding to the Railway Board will carry on exactly the work which the existing Railway Board is doing today. I want Mr. Iyengar and those who think with him to appreciate this. I speak with considerable diffidence, because Mr. Iyengar opened by saying that he had had the benefit of the advice of Sir Geoffrey Corbett.

MR. IYENGAR: Yes.

COLONEL HAKSAR: And Sir Geoffrey Corbett has been the member of the Government of India in charge of that department. He also said he had the benefit of the advice of Mr. Rama Rau, of the Finance Department. I may, therefore, have misconceived the position entirely, and if so I shall be glad to be corrected. As I see the position, however, very great difficulty arises; if the statutory body which corresponds to the present Railway Board is to be maintained by the Federal Government and is to perform the same functions as the present Railway Board performs, I presume it will fix the

rates and fares for all the railways, as does the present Railway Board -- the maxima and minima.

MR. IYENGAR: The maxima and minima, quite.

COLONEL HAKSAR: If it does so, the railways owned by the States would have to apply those maxima and minima. Once you lay down the principle that the railways in future are to make no profits, it means that you are going, for the benefit of the poor, to revise your maximum and minimum rates and fares; and if the States are going to be, as it is intended by the Federal Structure Committee they should be, governed by this activity of the Railway Board, where does the possibility of making any profits remain to them?

MR. IYENGAR: If there is a difficulty I will explain it

COLONEL HAKSAR: I do not understand it and I should like to understand it. The way I look at it is this. The future Railway Board, having regard to the fact that, except for paying interest rates, it is not at liberty to make any profits, will realise that it must make just enough money to cover the cost of management and to pay interest. It would therefore revise the rates accordingly. Those revised rates would apply to the States, and in so far as they applied to the States you cannot even guarantee that the States will be able to pay interest on their railway capital. Railways in India have been built by borrowing money at certain rates of interest. Railways in the States are proprietary concerns: at what rate is interest to be charged?

MR. IYENGAR: You have entirely misconceived what I said.

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COLONEL HAKSAR: I am willing to stop, but I want to elaborate this point further.

MR. IYENGAR: The proposal that we made, that Railways should be self-supporting, applied only to the Railways which are now the property of the Government of India.

COLONEL HAKSAR: I understood that entirely. The next step?

MR. IYENGAR: Therefore any proposal by means of which rates are cut down in the system of railways at present owned by British India will be governed by the policy which I have laid down.

COLONEL HAKSAR: But that is not the point.

MR. IYENGAR: I am coming to it. If on the railways owned by the States they want, by manipulation or by a different system of rating, to make a profit, we say that is very fair. We do not at present wish to do more than what the Railway Board is at present doing with reference to the administration of the railways - that is, as you say, the fixation of maximum and minimum rates does not interfere, as you apparently think it does, with making profits on your own railways.

COLONEL HAKSAR: Of course, because those maximum and minimum rates are intended to make profits on the railways administered by the Railway Board.

MR. IYENGAR: Quite so. Therefore the fixation of maximum and minimum rates will not prevent you from earning profits. What we propose is that this policy or principle will be applied only to the railways which are now the property of the Government of India, and from which we shall get a profit.

COLONEL HAKSAR: Then the Railway Board of the future will perform the functions of the present Railway Board?

MR. IYENGAR: No. I am afraid you are needlessly trying to exaggerate a small point.

COLONEL HAKSAR: Or make a debating point.

MR. IYENGAR: A debating point, if I may say so. I am not at all saying that you will be prevented by the operations of the future Railway Board from making profits by a general reduction of rates or by putting down maximum and minimum rates in such a manner as to deprive you of profits.

COLONEL HAKSAR: I did not say that. I said that would be the consequence.

MR. IYENGAR: I do not think so. Whatever you wish to do in respect of your railway administration to raise profits for yourselves, we do not propose to meddle. The Railway Board will be only a sort of administration, will perform the same functions which you have agreed in the Federal Structure Committee that it should perform. That is not going to interfere with your making profits. The proposal I have made will not interfere with that. All that we have said is that in respect of the properties now comprised in the British Indian Railways the policy that will hereafter be followed is to make them self-supporting; that is all.

COLONEL HAKSAR: I do not think I need go on discussing this point with Mr. Iyengar. He has entirely missed my point, which I thought was very clear.

and if it is to continue to exercise such authority as it does exercise in respect of railways owned by the States, the result which I have forecast must follow: either the maximum and minimum rates would be such as to admit of profits being made by the Government of India railways or the railways of the future Federal Government, in which case they would be such that the States would also make a profit, or they would be such that neither the Federal railways nor the railways of the Indian States would make a profit; because, after all, the profits result from the rates that are applied. I think the point is absolutely clear. Unless you are prepared to agree with me, I do not think that it would be possible for the States to make any profits, which you are kind enough to allow them to make. I think it is perfectly clear.

MR. INELIGAR: I am sorry. You mean to say that my proposal means abolishing the Railway Board?

COLONEL HAKSAR: No, I say nothing of the sort. All I say is that the application of your proposal, consistently with the maintenance of the Railway Board as it exists to-day, would lead to the result that, whatever you may say here in regard to the States having the liberty to make profits, as a necessary consequence they would be prevented from doing so.

SIR M. DADABHOY: But those functions of the Railway Board could be revised if it is necessary. We are going on the basis, of course, that everything will be considered later on.

DR. SHAFI'AT AHMAD KHAN: My Lord, we are not committed to the conclusions or the proposals of the Federal Structure Committee in regard to the Railway Board.

MR. IYENGAR: May I suggest that you are imagining things that do not really exist. As a matter of fact, of course, the Railway Board does not possess to-day the right to fix maximum and minimum rates; they are, as a matter of fact, arranged by agreement and by negotiation with the States. Such power as the Railway Board exercises, and many details in the present position, are matters upon which I should certainly like to have Colonel Haksar's advice. We were merely laying down the principles and I thought the Committee was only sitting here to lay down the principles. The principle, we want is that the British Indian Railways should cease to earn profits which will benefit only themselves, but should earn profits which will benefit not only British India but also the Indian States, which will happen if a Federal constitution is set up. That is the position. Therefore I would suggest that if there are such ~~difficulties~~ difficulties we are quite prepared to discuss them.

SIR A. HYDARI: May I put the difficulty in another form, because certainly your proposals were at the first blush very effective. (Laughter.) Is it not that adding on 3 per cent, as terminal tax to our railway rate might affect our railway earnings, and, in that way, whatever compensation you propose to give us in lieu of customs might be taken away by the decrease in the railway earnings? As you are aware, many of the railway lines which pass through Indian States are competitive with other routes, and it is by a very fine adjustment, and, as you yourself have said, by very complicated negotiations - sometimes conducted not with the best of temper - that a decision is arrived at as to what rates should be levied; and even with regard to railway programmes this is a

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determining factor; so that instead of having any direct control over this source of revenue, customs revenue, which we know and which we impose, we shall have to depend upon those indirect methods of having a terminal tax which might perhaps directly give us earnings in the shape of a larger rate, but might reduce the total of our earnings owing to the lower power of competition which it would imply. That is my difficulty. I should be very glad if that difficulty could be solved by you, because I shall really be happy if the internal customs barrier is removed, and at the same time we are just as well off as we are at present, with about a crore and a half in our customs revenue.

My second difficulty is that a considerable portion of our inland customs revenue is derived from export duties, and that would not be covered by a terminal tax on railways coming within it.

MR. IYENGAR: Terminal taxes are levied on export articles also.

SIR AKBAR HYDARI: Yes.

COLONEL HAKSAR: All goods moved by railways.

MR. IYENGAR: I know. There is only one point I wanted to mention just before you go to the next point.

THE CHAIRMAN: Wait a minute. We have plenty more points before we go to the next point.

MR. IYENGAR: Do you want me to take note of the whole thing and answer them all together?

THE CHAIRMAN: No, no; I want to raise one or two general points.

COLONEL HAKSAR: Well, will you kindly arrange that I should finish?

SIR AKBAR HYDARI: I would be dependent upon figures which could be obtained only by authorities in British India. Before I proceed further to say how I regard this proposal, I should be very grateful if it were possible for the experts here to work out from the statistics they get from all railways, including mine, as to how much a 3 per cent terminal tax would bring in the rough, if it is possible; because without that it is not possible for us to say whether it is an adequate quid pro quo.

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COLONEL HAKSAR: Might I continue now, Sir?

THE CHAIRMAN: Yes.

SIR AKBAR HYDARI: I neglect another possible difficulty; that is that a good deal of our customs duty comes otherwise than through railways. All that will have to be made up; the export duty, this and that would all have to be made up by a 3 per cent terminal tax which might affect our railway earnings prejudicially. That is my point.

SIR M. DADARHOY: When you say it comes in other ways than by railways, do you mean it comes by parts?

SIR AKBAR HYDARI: Yes.

THE CHAIRMAN: Carts and motor cars I suppose. I want to raise this general point before we go further. I am not sure whether all these details about the proceeds of railways are strictly within our terms of reference; because the point raised by Mr. Iyengar as to whether or not the railways should be treated as a unit, and that all their profits and losses, I suppose, should go to that unit, that there should be, I understand, no connection between them and federal finance, embraces far bigger questions administrative and political than merely the financial. Now we have got to say what are the respective fields of taxation. I suppose you can say, or you might say: I want to push aside any revenue from the railways altogether. But I do not think we can very well go into all the details of railway administration, can we? I think the utmost

we can say is that we are going to provide certain sources of revenue for the Federal Government. I think we are entitled to say we have put aside the railways because we think we can get no revenue from them, or, anyhow, should not get any revenue from them. But I do not think that is quite a subject for us; it seems to me it is not purely a financial question.

SIR C.E. WOOD: It would be a recommendation.

THE CHAIRMAN: I do not think we need necessarily go minutely into the questions of the results of finance and railways.

SIR M. DADABHOY: As Your Lordship says, it involves both administrative and political aspects.

THE CHAIRMAN: A great many questions.

SIR M. DADABHOY: I confess it does; and whether it really comes within the purview of our reference I am inclined to doubt now.

MR. IYENGAR: If there are any real administrative difficulties, you must examine them.

THE CHAIRMAN: I dare say, but we cannot do everything, and we are to examine the principles of the thing. I only give that warning: I do not think we can go too minutely into questions of railways.

MR. IYENGAR: I agree we only want to get principles.

THE CHAIRMAN: I am going to decide it in fact, Mr. Iyengar. But the other point with which I want for the moment to deal is this. In your interesting memorandum you have not, except by inference, have you, told us what the fields of taxation of the Provinces would be? You

have by inference, but not directly. We have got not only to say what the Federal Government are to have but what the Provinces should have. I want to get this definitely from you: You are satisfied, are you, that the Provinces will get quite enough revenue from land tax, certain what I call social excises, as you have expressed it, and income-tax?

MR. IYENGAR: Yes, and from the income-tax now transferred.

THE CHAIRMAN: I want that on the positive side as well; because we have got not merely to say by inference what should be the revenue of the Provinces.

DR. SHAFA'AT AHMAD KHAN: May I say part of the scheme dealing with the Provinces was implied by Sir Sayed Sultan Ahmed in his speech.

MR. IYENGAR: Yes, we have said that at the outset.

THE CHAIRMAN: Thank you; that represents your views?

MR. IYENGAR: Yes.

THE CHAIRMAN: I mean the British Indian view.

MR. IYENGAR: Yes.

THE CHAIRMAN: I want to be quite clear on that. Then I think the other point that was suggested by Colonel Haksar was that I should present a report on Monday, which I think is rather quick.

COLONEL HAKSAR: No Sir, later. I only said that because it was announced the other day that the Federal Structure Committee would meet on Monday.

THE CHAIRMAN: Yes, you gave me another 24 hours; but what I wanted to say was this: we have just had these statements made by Mr. Iyengar, and so on. I think it is a little hard to leave it to the Chairman or to bring up a Report merely saying: These are the statements of the British Indians and these are the statements of the representatives of the States.

MR. KYENGAR: Quite.

THE CHAIRMAN: Of course one could easily do it; it is quite practicable to do that.

COLONEL HAKSAR: You are very kind, Sir.

That means to say you propose to give us the opportunity of discussing that statement when we meet next.

THE CHAIRMAN: But I mean in the case of a draft report.

COLONEL HAKSAR: I thought perhaps you wanted to go ahead with it.

THE CHAIRMAN: I am not asking too much, am I, if I say I think we ought to get a little closer to it. For instance, one point in my mind was this: it would help us immensely if we knew that the representatives of the States were able to accept the full argument of British India about taking the whole of the debt. Obviously if you did that it would simplify the question very much, and we should not have those troublesome and difficult questions as to whether part of the income tax should be allocated to that part of the debt, and how the debt should be separated, and a great many things of that kind. If you could help me with a few propositions of that kind it would be of great assistance I think; I mean if you were in a position to

say: Yes, we think on the whole that the debt should be taken over by the Federal Government. I mean it is quite obvious that the statement of the Government of India that they have only valued it, as it were, on the assets of the debt, on the money which was raised in order to start the railways, is not a business proposition at all.

COLONEL HAKSAR: It is a big figure.

THE CHAIRMAN: Obviously it is what is the value of the asset you are taking over, and they themselves say the asset is worth far more than the money which was raised.

MR. IYENGAR: Quite.

THE CHAIRMAN: That is the sort of thing on which you might possibly help us by giving us your advice. If you thought it a fair thing that the whole of the debt should be taken over by the Federal Government, our conclusions would anyhow reach agreement on that question, and very useful consequences would follow.

MR. IYENGAR: Yes, very useful.

COLONEL HAKSAR: Sir, as it seems to be indicated that we shall have the opportunity of making a reply or stating our position with regard to the various propositions contained in Mr. Iyengar's statement on behalf of British India, perhaps we could deal with that question also. I hope we shall have a little time to have a little discussion amongst ourselves; and then I should be prepared to state our opinion definitely on the question you have mentioned.

THE CHAIRMAN: It was only a question of the draft report. It would of course immensely simplify the drawing up

of a draft report.

COLONEL HAKSAR: I quite understand.

THE CHAIRMAN: Because otherwise I am afraid the draft report will be so long.

COLONEL HAKSAR: We shall start on the basis that we shall not be expected to argue this on the Federal Structure Committee on Monday or Tuesday or until we have finished our work.

THE CHAIRMAN: It is very troublesome, because, of course, to some extent this question really depends upon what sort of Senate we can construct and so on; but I was going to say I would try and get Lord Sankey to give us, as I think he might, a day or an afternoon; unless, of course, these gentlemen here do not want to sit on the Federal Structure Committee.

I am ready to sacrifice for a day the satisfaction of sitting on the Federal Structure Committee myself, but you may not all wish to do that. You may wish to sit upon it. If you do not, I will certainly ask Lord Sankey if he could give us a day next week, say Tuesday.

COLONEL HAKSAR: I suggest that Your Lordship does that.

THE CHAIRMAN: I think that it would simplify the matter very much.

COLONEL HAKSAR: The questions involved are very important.

THE CHAIRMAN: They are extremely important.

COLONEL HAKSAR: You would find it extremely difficult, unless you have made up your mind that your Report will be discussed here for days and days, to frame a Report that we could put through in the course of an afternoon, which is an argument for saying, let us have more time to discuss these issues here, so that we can get close to the questions involved. I suggest that Your Lordship should ask Lord Sankey to give us more time.

THE CHAIRMAN: One can easily get together and prepare for the points on which there is agreement, but, speaking here and now, there are so many points on which there is disagreement that they seem to me to out-top the points on which there is agreement in so many respects.

COLONEL HAKSAR: Exactly.

THE CHAIRMAN: Therefore I should have liked to have got the thing closer if possible.

SIR A. HYDARI: I take it that you want, amongst

other things, a definite reply whether the Indian States' Delegation would like the Federation Debt to be federal in view of the constituent elements which have been explained. I think that we may be able to give you a reply one way or the other, with such modifications as may be necessary, if you give the Indian States Delegation an opportunity of discussing it amongst themselves, say to-morrow.

COLONEL HAKSAR: Yes.

SIR A. HYDARI: In addition, there is the question of Inland Customs duties to be replaced by a terminal tax.

COLONEL HAKSAR: I am just going to deal with that.

SIR A. HYDARI: That might be another question which we might discuss amongst ourselves and we might give you a reply. Are there any other questions of that kind? If you will give us those questions with regard to which you ask us for categorical replies we might first of all discuss them amongst ourselves, and then give you a statement which would considerably simplify the work.

THE CHAIRMAN: I am much obliged, because I see my work as Chairman very much simplified by that process. I think that after all it is a fair question to ask. I am much obliged to you for saying that you will give me an answer, because clearly that debt question clears up a good many difficulties.

SIR A. HYDARI: I think that we shall be able to give you a reply to that, because it is not complicated by many different details with regard to the repercussions of a particular measure in other ways, and so on. The second question with regard to the debt I think that we would be able to examine, and we would probably be able to come to some conclusion upon the matter.

SIR M. DADABHOY: I think that you have already come to some conclusion.

MR. KRISHNAMA CHARI: No.

COLONEL HAKSAR: I should like now to proceed. I will try to be very brief.

SIR A. HYDARI: So far as Hyderabad was concerned, I have given that answer, but I do not think that I ought to bind all the States upon a question of this kind. It is but fair that the whole of the Indian States Delegation should have an opportunity of discussing the matter amongst themselves.

THE CHAIRMAN: Yes.

SIR A. HYDARI: I shall pull my weight.

THE CHAIRMAN: I shall reply to what Sir A. Hydari said with regard to other points to which their attention might be directed. I am obliged to Sir A. Hydari for the suggestion, because there are two or three other points. I was thinking of them while Sir A. Hydari was speaking. Meanwhile, you want to say something, Colonel Haksar.

COLONEL HAKSAR: I want to say a few more words. When I brought to notice my difficulty arising out of the suggestion in respect of Railways or how the Railway earnings should be treated in the future ---

SIR M. DADABHOY: Does not Colonel Haksar think that he will be in a better position to reply after studying this statement?

COLONEL HAKSAR: I am coming to an entirely different point. I think that I am entitled to one credit. I think that I am the one person in this Committee who resents interruptions the least. I am going to deal with an entirely different point.

SIR M. DADABHOY: I am sorry, I did not understand,

COLONEL HAKSAR: That was only an opening sentence.

DR. SHAFIAT AHMED KHAN: I could not follow it.

COLONEL HAKSAR: I shall say it again. I think that I remember my words. I will say it again when I have Mr. Iyengar's attention.

SIR G.E. WOOD: Surely we are entitled even to go out when somebody is speaking, are we not?

COLONEL HAKSAR: Not when you are being addressed directly.

THE CHAIRMAN: I have been discussing the possibility of the time for meeting again.

MR. IYENGAR: I am very anxious to hear everything that my friend says.

COLONEL HAKSAR: Before the interlude, when I referred to what I considered to be a real difficulty arising out of your proposal in regard to Railways, you were kind enough to say that I had made a debating point. I trust that you will not think that I am making a debating point now when I advert to your remarks with regard to Customs duties. In regard to Customs duties you said two things. One of them was that the Customs duties levied by the States should be given up. The second was that there cannot be any question of compensation for the abolition of those duties, because to compensate the State would mean that you would be increasing the burden of the British Indian tax-payer. If I may put it in this way, I doubt if a business man or an economist would hold with that view. My reason for saying that is this: Why is it desired that the internal Customs barriers should be given up? It is desired because they are supposed to interfere with the trade of the country. It is pointed out that, while those internal

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Customs barriers are maintained, their operation, and the fact of the levy of Customs duties by so many administrations in the country, must eventually tend to reduce the imports of the country, which means that if those Customs barriers are abolished the imports would increase, and, consequently, the income from imports would be larger. Therefore, from the point of view of Finance the result will not be that the British Indian subjects of to-day would be contributing money to the subjects of the States. The intention of the proposal is to increase the imports. I think that that has been said even in this Committee more than once. Insofar as you increase the imports, you increase your revenue from Customs duties. It may or may not be that Sir Walter Layton has been proved to be a false ^{prophet} ~~prophet~~, or a true prophet, but I will recall to the minds of my friends of British India his forecast as regards Customs revenues of the future. It is being assumed just now that certain industries in India would have to be protected, and, therefore, the effect of the protective duties themselves would be ^{to} reduce the imports. That is perhaps not untrue, but it is not correct to say that, if the States are compensated for giving up Customs duties, an additional burden will fall upon the people of British India.

Yesterday when we were discussing the questions which you have been kind enough to frame for our consideration, when we arrived at question 13, and I pointed out that that question remained to be discussed, Mr. Iyengar said that if we waited until this morning we would find that their answer to that question had already been giv

I imagine he thinks he has given a reply to that question. We have not discussed Question 13, and I should like to know whether I am not correct in thinking that that reply has been given by implication. When he was speaking you did ask the question, Sir, whether in consequence of what had been said the necessity for a pro forma budget would not disappear, and the reply to that question was that it would disappear.

The implication of that is that there will be a common pool all along the line. The proposals put forward from that side today in regard to taxation aim at a common pool. The implication is that all the expenses, whether for debt service or anything else, will be charged to the revenues, and all the sources of revenue would be diverted to the common pool; hence no necessity for a pro forma budget at all. Therefore Mr. Iyengar, by implication, has answered Question 13 in this way -----

MR. IYENGAR: Which is Question 13?

COLONEL HAKSAR: Question 13 of Lord Peel's questionnaire. Mr. Iyengar has answered this question by saying, in effect, that under his proposals this question does not arise; the expenditure must be debited to Federal revenues and any revenue must go to Federal revenues.

MR. IYENGAR: That is the implication.

COLONEL HAKSAR: It must be appreciated, as I said the other day, that some of these Provinces are deficit Provinces and will have to be subsidized in the future. On what principle? Because they must be maintained; they must be administered; they must be kept going.

MR. IYENGAR: They are as advantageous or as disadvantageous to the Federal Government as they are to the British Indian Government.

COLONEL HANSAR: So are the States. Is Mr. Iyengar, therefore, prepared to say that he is ready to consider the question of subsidizing the States upon the same principle?

THE CHAIRMAN: Subsidizing the States?

MR. KRISHNAMA CHARI: The deficit States.

COLONEL HANSAR: He would abolish the customs duties, by which one State would lose $1\frac{1}{2}$ crores and others large sums, although they find it very difficult to make ends meet. In the case of the non-Governor's Provinces, they must be enabled to make ends meet and therefore they must get a subsidy from the Federal Government. What I am putting is, I think, a fair point and not a debating point; I am asking whether, that being the case, he contemplates a subsidy for the States also.

MR. IYENGAR: I will answer that.

COLONEL HANSAR: I think you expected me to answer all your questions put at once.

MR. IYENGAR: The Chairman suggested we should not go on interrupting each other.

THE CHAIRMAN: I did not want too much interruption, because it prevents our getting on with the points.

COLONEL HANSAR: I am getting a little alarmed.

Mr. Iyengar keeps jotting down my questions, but I have not dealt with a twentieth part of his statement yet, and when I go on to deal with the rest of it at the next session he may find he has to take down many more questions; and when are they going to be answered? I think for the moment the atmosphere in this sub-Committee is not quite what it should be. I know we are all going to end by agreeing and by seeing each other's point of view, and the result will be that all unfairness on either side will be eliminated; at least that is my hope.

MR. IYENGAR: Quite.

THE CHAIRMAN: You rather alarmed me by suggesting a fresh charge on the Federal Government. I thought it had not enough money already.

COLONEL HAKSAR: That is exactly the position of the States, and I want the fact to be appreciated. For the last twenty years, in official communications addressed to the Government of India, I have asked "Why are you cramped their style and preventing their development? You have tied them hand and foot. They cannot expand and improve their administration". It is said that the level of their administration is below that of British India. That is a most unfair charge. They have been deprived of all sources of revenue by the fiscal policy which the Government of India have adopted, and now it is said that a terminal tax will be brought in which will make up for the loss of customs duties.

THE CHAIRMAN: I hope you will acquit me of having eve

suggested the terminal tax!

COLONEL HAKSAR: It has nothing to do with you, Sir.
I do not think I need go on.

THE CHAIRMAN: I want to get back for a moment
to the general position of the Federal Government. It is going
to be provided with customs and with certain excises.

COLONEL HAKSAR: And the corporation tax.

THE CHAIRMAN: Those excises, I understand, are to
balance the loss of income on customs, so that they are not
an additional income; they are only to make good deficiencies
in the customs. We have got as far as that.

COLONEL HAKSAR: Forgive me for interrupting you,
but why do you say that? Certain excises are additional
to customs duties and frankly not intended to make up
any loss suffered on customs duties.

THE CHAIRMAN: They are going to be additional?

COLONEL HAKSAR: Of course. Take your present petrol
excise-----

THE CHAIRMAN: Certain of them, I will say, are to
balance deficiencies in the customs revenue. You agree to
that?

MR. KRISHNAMA CHARI: The excise on matches is a case
in point.

SIR C.E. WOOD: Any new manufacture.

THE CHAIRMAN: I want to try to get an idea of what the

Federal Government will have as its resources. In addition to customs it will have certain excises which you say will not be, as it were, in lieu of customs but which will give additional revenue. Then it has commercial stamps.

DR. SHARAFAT AHMED KHAN: And the corporation tax.

THE CHAIRMAN: Yes, but the corporation tax yields only 3 crores, does not it? It is a very small amount. I want to know, as the limits of its revenue are so very strictly confined, whether you further suggest that there should be some power with the Federal Government of procepting from the Provinces in order to make up its revenue. I am not talking of emergencies, but when one is thinking of future loans which the Federal Government may have to make one cannot help realising that the margin on which it would have to raise them would be extremely small. You have not given much elasticity.

SIR C.E. WOOD: You will remember that that was my suggestion yesterday, that this Finance Council of the Provinces should be able to meet with the Federal Government and arrange for a portion of the income-tax to go to the Federal Government if necessary. That was one of my suggestions.

THE CHAIRMAN: But that would be entirely in the hands of the representatives of the Provinces, would it not? Your idea is that the Federal Government should have no power to go to the Provinces or to say that they want to reserve a certain amount of the income-tax revenue for Federal purposes. You want to cut it off entirely from those sources of taxation?

SIR C.E. WOOD: The Federal Government would not have the power to impose that, but the suggestion is that the Governor-General should have overriding powers in finance to some extent in order to see to the solvency both of the Federal Government and of the provincial Governments.

THE CHAIRMAN: You may have overriding powers, but you do want to start the business off with a reasonably fair income.

MR. IYENGAR: May I say what we had in mind in this connection. Our expectation is that on the footing on which we have drawn this up, dividing the resources as we now know them, it would be possible for the Federal Government to carry on the functions now assigned to it under our scheme; but obviously we cannot provide for the contingencies which may arise even in the normal course, as you rightly say; and therefore I think we want some experts to study the matter and come to concrete proposals for division later on. That is why we are only discussing general principles.

THE CHAIRMAN: We cannot do more than that, obviously.

MR. IYENGAR: We cannot, therefore, immediately say whether we should here and now reserve always a definite power for the Federal Government to call on the States or the Provinces to give a subvention, but we have contemplated the contingency that in all cases the Federal authority should be in the position to levy adequate resources to make its position solvent, whether that is called residuary power or reserve power or emergency power or whatever it may be.

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SIR A. HYDARI: There is the pre-Federation debt, but under the scheme as now suggested there will be very few contingencies for having any future Federal debt.

The subjects for which usually loans are legitimately borrowed will all have been provincialised, in terms of development and so on, and there will be practically very little to raise for Federal purposes.

MR. IYENGAR: I would not say there will be very little. For instance, as we contemplate it, the railways will be able to raise their loans for their own purposes under the scheme by which we hope to constitute a separate Board.

SIR AKBAR HYDARI: But in the development of Railways the Provinces will be very much interested.

MR. IYENGAR: Quite so. Therefore there will be no difficulty, because that is what we call an asset-covered debt. But there may be occasions when the Federal Government may want to tide over a temporary deficit. There may be occasions on which, for instance, some sudden requirement may make that necessary. It is for that reason that I have said that the Federal Government should always possess the power to call upon the Provinces, or to possess the power to levy taxes to meet such occasions.

SIR AKBAR HYDARI: I agree that until we have some rough figures we cannot know what reserve power we want.

SIR M. DADABHOY: This is quite different from what your Lordship asked. What your Lordship wanted to know was, Is the Federal Government starting with an assured source of revenue to commence its business?

THE CHAIRMAN: To commence its career.

SIR M. DADABHOY: With regard to this matter I made it perfectly clear in the general debate which took place in the main Committee that I have grave doubts on the subject of this Federal apportionment. I stated that we are starting with no assured income, of source of revenue, and I pointed out that in following Sir Walter

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Layton's recommendation I was/sanguine of obtaining the revenue which he foregaw.

THE CHAIRMAN: There are two further questions I would like to put, if I may. As I say, I think the question of the railways is rather wider than the purely financial question. Supposing, for instance, there is a big deficit on the Railway one year. The Railway would have to meet that deficit itself? It would not be able to call on the State under your scheme. There is a difficulty which at once suggests itself to me, because of course all this money was borrowed by the Federal Government itself, and was used either for purchasing Railways, or running Railways. The Federal Government cannot excuse itself, as compared with its creditors, if you simply say "I have put that asset on a basis by itself - a self-supporting basis".

SIR M. DADABHOY: No, it cannot say that to the creditor.

THE CHAIRMAN: And therefore you cannot say to the creditor "Here is an insolvent railway; you get what you can out of it".

SIR M. DADABHOY: Our responsibility remains continuous, and subsists as long as the Federal Government continues.

THE CHAIRMAN: Therefore if you are going to say that all the profits, or any surplus profits, from the Railway shall not go to the Central Government, it seems to me a very bad bargain for the Central Government.

SIR C.E. WOOD: The suggestion is not that the Central Government should pay a deficit, but that it should be carried forward and that the Railways, by adjusting their rates in the following year, should make it up.

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THE CHAIRMAN: That is not always possible. I have had painful experiences myself of that -- where it is no good putting up your rates, because you are not going to get any more traffic. A good many problems of that sort arise. I do not think it can be simply dismissed by saying that the Railways should be put on their own basis and fend for themselves.

DR. SHAFA'AT AHMAD KHAN: The position now is that one per cent. of the total profit can be utilised for the general revenue of the Government of India. On the other hand the Government of India sometimes has to provide money for the sinking fund. But they balance each other, and there is nothing left.

THE CHAIRMAN: We heard about that five and six crores.

SIR C.E. WOOD: The Central Government would be no worse off than it is to-day, would it?

MR. IYENGAR: May I say one word in regard to your question, Sir? I quite see the difficulty, but what we are now doing is to confuse what I may call the legal or constitutional position with the financial position.

The proposal that we made was purely a financial proposition with a view to getting clear what would be the general expectation as to the financial position of the railways. To-day the financial position of the railways is that it pays all its working expenses, that it provides a very definite reserve fund, that it provides a very definite equalisation fund and a depreciation fund. All these funds are in actual existence, and over and above that, the general revenue also contributes a certain amount for the redemption of that part of the railway debt which is capitalised in the railway budget. Now, all these resources exist, and in the condition, therefore, in which the railways stand to-day, with all these resources, with the general contribution, we feel that if the railways are to be in their proper position as a thoroughly going concern they ought to work their way with great ease, and if there is a deficit this year they will have to do what other business concerns have to do - try to increase their income and diminish their expenditure and produce a surplus next year. But I agree with you, Mr. Chairman, that that does not dispose of the question as to what is the person to whom the creditors of the railway will have to look for payment if the railways become insolvent. Now, so far as that is concerned, it does come in also on the other question. It does come, in the last resort, to this position, that the Federal Government, as such, will be the authority that will be in the eye of the investor, the authority on whose credit - not exactly on the actual assets in its possession, but on whose

government may propose to raise. It is for the Federal Government to satisfy itself that when it wants to help the railways, it ought to go to the expense of raising further capital, or, when the existing capital stands to be redeemed and the railways are not in a position to redeem it, whether it should not thereafter wind up that railway, and then that deficit will be distributed. As we take it, we do not envisage that contingency happening, and, after all, technically, no doubt, if we try to put the railways into the hands of a third party, a railway board or something of that sort, it may conceivably be that the investor who wants to put the money into the railway -----

COLONEL HAKSAR: Mr. Iyengar, how do you contemplate dealing with the lines that will continue to be owned by the States?

MR. IYENGAR: These are details, as I said, that we have not discussed. When they come in for purchase, naturally it will be for the Federal Government to consider whether it will buy the State out and keep the property for itself.

COLONEL HAKSAR: Then why not say you have sketched an ideal?

MR. IYENGAR: It is no use using phrases. I can give it back very easily. You are determined to obstruct every little detail.

THE CHAIRMAN: Oh, I think that is rather too much!

COLONEL HAKSAR: I am not saying it to annoy

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DR. SHAFI'AT AHMAD KHAN: As regards this ideal, I think the principles we have put forward are the same as those that were put forward by the Aowbrth Committee in 1922, and these principles have been followed in the South African Constitution.

You will find that they propose the same constitution for the Railway Board as we have proposed here. So that there is no question of an ideal; it is practical politics we are dealing with now. I certainly think that if once the Central Government is allowed to poach upon the profits of the Railway Board, it will have a tendency to go on poaching, and ultimately the whole principle of separation of the Railway Budget from the Central Budget will be completely ignored. We must keep rigidly to this principle of the separation of the Railway Budget from the ordinary Budget. It is for this reason, My Lord, that I support this principle because I believe it is essentially sound. The Railways should be self-supporting; for the Central Budget we should not poach upon the money which the Railways earn; and the Railway Board also should be told beforehand that if they lose they will have to pay it virtually out of their own pocket. They must take the consequences and stand on their own feet.

MR. IYENGAR: I will merely give two figures which will perhaps satisfy you. The Railway Reserve Fund on the 31st March 1930 was a sum of 15 crores 87 lakhs. The Railway Reserve Fund Investment Account gives us the sum of 46 lakhs odd. There is also what we call the Depreciation Fund. I am only giving an idea that really the position is not a reasonable prospect.

THE CHAIRMAN: You are stating that the position of the Railways, unlike the position of railways in all other countries, is a very good one.

MR. IYENGAR: Yes.

THE CHAIRMAN: Yes, that is really what it is. May I ask one further question? We have just been discussing to some extent the question of the contribution from the Provinces - either as a precept or in any other form, - income tax, and so on. Now that, of course, would, on the principle of equal contribution from all the constituent elements of the federation, fall on the States. I wanted to know what constitutional arrangement the States would prefer to have in case they were called upon to make a contribution to meet, as it were, what they ought to pay. I understand they do not want to have any direct taxation: they do not want the Federal Officers to be collecting income tax in their States. Supposing an income tax of 3d was laid upon the Provinces and accepted by the Provinces. There would of course be some equivalent contribution from the States. How would the States propose that they should deal with that? How first of all, should their contribution be assessed, and how would it be paid?

COLONEL HAKSAR: If they consented to such a tax, the rest would be easy; they would accept the arrangement that the federal machinery should collect the tax and credit it to the Federal Government, or they could arrange with the Federal Government to collect it themselves and transfer it. For instance, take Post Offices today; I am just giving you an example. In the Convention States this is what happens with regard to postal traffic emanating from a State, particularly money orders. In some States you have got the provision that if a money order is sent to a State it keeps the money order Commission, while if

a money order is sent from the State to British India, the British India authorities keep the commission. In other States the actual amount of commission is computed; they have a formula for dividing the proceeds. I can tell you this with regard to my own State. I speak subject to correction; my figure may be wrong. I make a monthly payment to the British Post Office of something like 5 lakhs of rupees a month for adjustment. There would be no difficulty about it; it is only a minor item of procedure. Of course I am proceeding on the assumption that the States agree to such a tax.

THE CHAIRMAN: The Provinces would be told that they were to contribute so much to the federal resources; you can call it income tax if you like; it may take any form. Then how do you envisage the procedure? Of course there are so many States. Would all the States have to agree separately to make what they consider to be a contribution in lieu of income tax, as it were.

COLONEL HAKSAR: I should imagine that would be done in the Federal Legislature.

THE CHAIRMAN: You mean that the Federal Legislature in that sense would bind the States?

COLONEL HAKSAR: Obviously if a measure went through with the States who are present in the Legislature.

THE CHAIRMAN: Then they would be bound to make certain contributions?

COLONEL HAKSAR: That would certainly apply to all States that enter the federation. The difficulty is this

what principle you would apply to those States who did not enter it.

THE CHAIRMAN: That is the more difficult case.

COLONEL HAKSAR: That is the difficulty.

THE CHAIRMAN: Then, having agreed to that, you would have to work out of course on some basis what this contribution was to be. Would you leave it to every State to assess its own income tax? The Federal Government is a practical question and the Federal Government has got to raise money.

COLONEL HAKSAR: Obviously.

THE CHAIRMAN: It has got to know how much will come into its pocket. It knows how much it will get from the Provinces because they are raising their income tax, and you can pretty well calculate what the product of another anna or two annas may be; but how would the Federal Government proceed to estimate what it would be likely to get from the States, if there is an addition of 3d in the income tax from the Provinces?

COLONEL HAKSAR: Sir, does not that assume (a) that there is income tax in the States, and (b) that the proceeds of that tax are being diverted to the Federal fisc. Then the Federal Government would have the figures of the total yield; they would be able to calculate what they would get from the addition.

THE CHAIRMAN: But I cannot assume that, can I?

COLONEL HAKSAR: No, you cannot in the present circumstances, because with the exception of a few States there is at present no income tax.

THE CHAIRMAN: I want to know if you can give me any idea of how that difficulty can be overcome - given the principle of equality of taxation, which I think one has to admit.

COLONEL HAKSAR: Yes, given the principle, certainly, but subject to the qualification that the States are not at all prepared to make any further contribution to the revenues of the Federal Government than they are doing today.

THE CHAIRMAN: Well, that is rather a severe principle is not it? Do you mean to say that, whatever the requirements of the Federal Government, the States are not prepared to make any further contribution than they are making today, however heavy may be the additional contribution levied on the Provinces?

COLONEL HAKSAR: No, I am not saying that, because that would be very unfair.

THE CHAIRMAN: It has struck me as being unfair.

COLONEL HAKSAR: Are you assuming an emergency when it may be necessary?

THE CHAIRMAN: I do not think we ought to assume necessarily emergency.

COLONEL HAKSAR: May I remind you with all respect that when I first spoke on this Committee I stated it as my view that it was absolutely necessary for us to have some idea, however vague, of what our federal resources were going to be, and our heads of federal expenditure,

so that we could see at this stage what is the money that we would give and how much it would cost to carry on the Federal Government.

MR. IYENGAR: We have been repeatedly saying that that is the most difficult part of the work.

COLONEL HAKSAR: I know it is difficult.

MR. IYENGAR: And especially at this time when we do not even know how much our present well-known sources of revenue are going to give us, and how our expenditure will be curtailed. It is in those circumstances that we are asked to consider the question and lay down what are called principles. So that we can only go on on the basis of whatever material is now available. Do you desire that the whole thing should be put off until it is brought down to brass tacks?

COLONEL HAKSAR: No, I am not saying that; but I am saying we roughly know the sources of our revenue, such as salt.

THE CHAIRMAN: I know that. It is, if you like, a hypothetical question, but still one has to look into the future I think when one is trying to establish the financial relations for a new federation.

COLONEL HAKSAR: Is the implication that the price which the States will have to pay for the privilege of entering federation would be to increase their own liabilities and pro tanto to reduce their own resources?

MR. IYENGAR: Equally with the rest.

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COLONEL HANSAR: Yes, I know; but supposing federation did not come. We have read the Finance Members proposals; I read them with great care yesterday: that British India finding itself in this difficulty has to raise money. Assuming that such a situation arises when federation comes, the States would not be found wanting. I do not think I can fairly be asked to say more, Sir. They would see that more money was required for carrying on the administration of the country and for carrying on the Federal Government, and then they might be prepared to agree to any reasonable proposal; but if you put it to them in the form: "Do you subscribe to the principle today that while there is a possibility of a financial breakdown in India and if you are called upon to make a contribution you will do so", you can only expect one answer from them and that is ! No.

THE CHAIRMAN: But that is not the question I am putting. I am particularly avoiding talking about financial breakdowns. Of course when you have financial breakdowns you may have to do almost anything. I am talking about the normal administration of, let us hope, a normally expanding country, with prosperity growing and so on.

SIR M. DADABHOY: That is what I say, and I emphasise the point. We shall always have trouble as regards the Federal Government unless the income-tax and the Salt tax are kept Federal subjects. That was the argument upon which Sir Walter Layton wanted to alienate these taxes, and to give them to the Provinces.

MR. KRISHNAM CHARI: Salt tax?

SIR M. DADABHOY: Salt tax is also gradually to be handed over to the Provinces.

MR. KRISHNAM CHARI: Salt tax is proposed to be federal.

THE CHAIRMAN: Do not hand over another tax, or you will have nothing left.

SIR M. DADABHOY: I am speaking of the suggestion which has been made. I am speaking of Sir Walter Layton's suggestion that the Salt tax must be eventually handed over to the Provinces gradually, as the Federal Government find it convenient. That is his recommendation. I say that unless we keep these two mainstays of ours, both the full income-tax and the Salt tax for the Federal Government we shall always find ourselves in financial trouble.

SIR C.E. WOOD: What about the Provinces?

SIR SA'YED SULTAN AHMED: Sir M. Dadabhoi is expressing his own personal opinion.

SIR M. DADABHOY: It is always a personal opinion.

SIR SA'YED SULTAN AHMED: We do not agree.

SIR M. DADABHOY: I know that you do not agree. That is my personal opinion. You left yourself in a dilemma.

COLONEL HAKSAR: We suggested that for the purposes of raising any revenue which might be wanted it would be just as well to specify heads of indirect taxation, and that was the idea, so that we should have some reserve sources of revenue. The suggestion was to specify heads.

MR. IYENGAR: That is why we have referred to specific things. When Sir A. Hydari asked what "etcetera" meant, I said that we would always want to know very definite: this much and no more.

SIR A. HYDARI: My position throughout has been, in the first place, that really the Federal Government of the future will not require so many expanding sources of revenue.

SIR C.E. WOOD: Not so much as the Provinces.

SIR A. HYDARI: Secondly, that on a rough estimate of what the position is at present, you will probably be able to ascertain how much more reserve power you will require under adverse circumstances, and therefore, for that purpose/give away an "etcetera" number of taxes to any particular authority does not appear to me to be desirable when it will really warn off a lot of people.

MR. IYENGAR: I quite see that. To the extent to which we can specify, it is best specified no doubt.

SIR A. HYDARI: Yes.

SIR M. DADABHOY: What reserve power is now required is made perfectly clear by what Sir George Schuster said at Delhi the other day.

SIR A. HYDARI: I am afraid that all those statements

have been made with regard to the Government of India as it is at present. All that has been done with reference to the Government of India as at present, without envisaging that all the expanding sources of revenue will really be required by the Provinces.

MR. IYENGAR: Yes.

SIR A. HYDARI: And, therefore, the field of taxation for the Federal Government should be as narrow and as well defined as possible.

SIR SAIED SULEMAN AHMED: It should be elastic too.

THE CHAIRMAN: With regard to the next meeting, I am told that the idea is that the Federal Structure Committee should meet in the mornings, and that there should be informal discussions in the afternoons as regards Minorities, but that Mr. Iyengar is the only member of the Committee who wishes to attend those afternoon meetings.

MR. IYENGAR: I shall cut either one or the other. I do not want to stand in the way of your getting on with the business if you want to sit in the afternoons. If I find that those discussions can go on without me I will come here. If, on the other hand, I find that the discussions here can go on without me I will go there.

SIR A. HYDARI: I think that your presence is more necessary here than on the Minorities Committee.

THE CHAIRMAN: My difficulty is to settle the time of our next meeting. I think that you must leave it to me to get the Committee together as soon as I can. It is almost impossible for us to say whether we can meet on Monday afternoon or Tuesday afternoon. Meanwhile, we will do what we can with regard to putting things together.

that they would get what I call their answer to the case as stated by Sir Sayed Sultan Ahmed and others, and Mr. Iyengar. I think that in that case we shall get on. They were good enough to say also that, if one thought of any other questions, they would be good enough to give an answer to them. I think that that would save time. We must wait and see when we can meet again. We may be able to get Monday afternoon, or Tuesday afternoon, or possibly the whole of Tuesday from Lord Sankar.

SIR M. DADABHOY: We will await your decision.

COLONEL HAKSAR: We are not meeting this afternoon?

THE CHAIRMAN: No. I do not think that we have anything to deal with this afternoon.

The Committee adjourned at 1.10 p.m.
to a date to be fixed.

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CONFIDENTIAL.
R.T.C. (F.F.)
6th Meeting
(Draft)

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Copy No.....

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INDIAN ROUND TABLE CONFERENCE
(Second Session)

FEDERAL FINANCE SUB-COMMITTEE.

SYNOGRAPHIC NOTES of the Meeting of the
Sub-Committee held at St. James's Palace,
S.W.1., on Tuesday, the 6th October, 1931,
at 11 a.m.

BRITISH DELEGATIONS.

Lord Peel (Chairman)
Major Elliot
Sir Robert Hamilton

BRITISH INDIA DELEGATION.

Sir Moneckjee Dadabhoy
Mr. Iyengar
Dr. Shafa'at Ahmad Khan
Sir C.E. Wood

Also present:-

Mr. G.H. Baxter
Mr. F.P. Robinson
Mr. H.A.F. Rumbold

Secretaries.

Mr. Bajpai
Mr. Rama Rau

Secretaries.

Mr. Laithearte
Mr. Titze
Mr. Patrick
Professor Coatsman
Mr. Stopford
Mr. Garratt

INDIAN STATES DELEGATION.

Sir Akbar Hydari
Sir Mirza Ismail
Colonel Bakser
R.B. Krishnappa Chari

SECRETARIAT-GENERAL.

Mr. Carter (Secretary-General)
Mr. Anderson
Mr. Sladen
Mr. Deshmukh

Also present:-

Sir P. Pattani
Sir M. Mehta
Paudit Abal
Mr. G.N. Joshi
Mr. Gulam Muhammad
Mr. Singaravelu
Mr. Rushbrook Williams
Mr. Young

Secretaries.

Mr. M.S.A. Hydari
Mr. Madhava Rao

Secretariat-General,

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THE CHAIRMAN: Gentlemen, I believe we are going to hear a statement from Sir Akbar Hydari.

SIR AKBAR HYDARI: I am authorised to make the following statement on behalf of the representatives of the Indian States with regard to certain points that were raised.

With regard to internal customs, the right to levy internal customs enjoyed by the States is one which they must retain, as they form one of their chief sources of revenue. The States concerned must, therefore, be left full discretion to retain, modify or abolish them only as their circumstances permit. If, however, in the interest of Federation, the abolition of these duties be found to be desirable at any time, adequate compensation should be given.

With regard to the Pre-Federation Debt, the States agree to pre-Federation debt being made Federal, provided that after an examination it is found that the service thereof is covered by the receipts from the productive British Indian assets made over to the Federal Government. If there be a balance, it should be a first charge on receipts from British Indian Income tax or any similar direct tax on British India. On the other hand, the States are prepared to agree that the Federal Government should take over the debt service of such departments, for example, Posts and Telegraphs, as are made Federal.

The third point is Commercial Stamps. The States agree that they should be Federal for policy and legislation, but their administration and the revenue derived therefrom should be left to the federating units.

The fourth point is State Contributions and Cessions of Territory.

All cash payments by the States should cease. The question of adjustment of the contributions of the States through cessions of territory should be similarly and simultaneously dealt with in respect of the States that so desire.

Sir Mirza Ismail is strongly of opinion that the question of cash payments should be dealt with forthwith. Incidentally, the question of what is due to the States for units of their Armies maintained for service of the Empire will also have to be considered from the point of view of adjustment.

Fifthly, in the opinion of the States the Federal Budget will be a restricted one having regard to the content of the subjects which will be declared Federal. There should therefore be no occasion ordinarily to resort to taxes in addition to those with which the Federation will, at its inception, be endowed. They however fully appreciate the need of a certain degree of elasticity in Federal sources and from that standpoint are willing that certain indirect taxes and the creation of certain Federal monopolies, as may be agreed upon, may be specified to meet an emergency. What those sources would be, and how they would be utilised and developed, should be explored by the Expert Committee which is contemplated would be appointed to make detailed investigation regarding the various problems of Federal finance, and on which the States would be fully represented.

This, My Lord, is a statement to which all the members of the Indian States Delegation on this Committee have

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subscribed. I should like to make a few observations with regard to one or two points.

With regard to internal customs, I think we have made ourselves perfectly clear. I can assure you that a State like Hyderabad, for instance, has for many years past been considering how it could have a scientific tariff and could do away with a good many of the duties on imports and exports. If you compare our tariff now with what it was a few years ago, you will see what great progress we have made.

THE CHAIRMAN: You might give us a few hints here!

SIR AKBAR HYDARI: We have cut out a good many small articles which really brought in no revenue.

THE CHAIRMAN: When you say "internal customs", what do you include in that -- export duties as well?

SIR AKBAR HYDARI: Both import and export.

THE CHAIRMAN: And also excises?

SIR AKBAR HYDARI: There are no excises. No duty is imposed at the source of manufacture, because we have no industries.

THE CHAIRMAN: No, but you might have.

SIR A. HYDARI: But I have also had the advantage during this time of being able to look into the actual results that would follow if there was a terminal tax imposed, and I find that it will not help us unless the terminal tax is imposed all over India. If it is allowed to be imposed only on our own railways or within our own jurisdiction, it will have the effect practically of either reducing our earnings or diverting our traffic elsewhere, and it will in no way bring in anything like the 150 lakhs that we at present obtain from customs. As a matter of fact, I have got the figures here as to what would be the result.

THE CHAIRMAN: Will you give us the rough figure? You said 150 lakhs at present.

SIR A. HYDARI: We at present collect 43 lakhs at the frontier through road traffic. Then on rail-borne traffic in Secunderabad and Hyderabad we collect 24 lakhs; in the Warangal district 21 lakhs; in the Godaveri district 38 lakhs; that is 83 lakhs; and then in the Gulburga district, then through another line, the G.I.P. line, passing through our State, 25 lakhs; that is how we make up the 150 lakhs. Then there are the 43 lakhs collected for road traffic that we would lose, and then I have got here statistics of the exports and imports which we had. As regards cotton, we had 72,000 tons, and the freight we got was 15 lakhs; grain, 50,000 tons, we got 5 lakhs; oil seeds, 175,000 tons, 16 lakhs; others, 192,000 tons, 13 lakhs; total about 489,000 tons, which gave us a freight of 49 lakhs. As regards imports, piece-goods were 11,000 tons, 2 lakhs; grain, 52,000 tons, 5 lakhs; sugar 31,000 tons, 3 lakhs;

salt, 59,000 tons, 6 lakhs; others, 179,000 tons 20
lakhs.

SIR M. DADABHOY: You are only referring to Hyderabad State?

SIR A. HYDARI: Only to Hyderabad.

THE CHAIRMAN: That was merely an example.

MR. IYENGAR: May I put one question?

THE CHAIRMAN: Yes.

MR. IYENGAR: What about the corporation tax that we suggested? Have you come to that?

SIR A. HYDARI: Well, it would come within that No. 5 as reserve taxes.

SIR C. E. WOOD: The corporation tax was for the benefit of the Centre, not for the benefit of the States.

MR. IYENGAR: Yes. I am asking so far as the States are concerned whether they are agreeable to the levy of a corporation tax for the Centre. You think there will be no need to levy a corporation tax, but if there is need you are prepared to consider it; Is that what you mean?

SIR A. HYDARI: That will be for the expert Committee, and if that is one of the taxes which is considered to be a reserve tax we will agree to it.

SIR M. DADABHOY: Might I ask you one question?

SIR M. DADABHOY: Your statement is not explicit as to the stage at which you want this question to be settled. Do you agree to come immediately into the Federation?

SIR A. HYDARI: If it is to be as compensation immediately, yes.

SIR M. DADABHOY: That is exactly what I want to know - whether you are prepared to come into the Federation immediately, and leave the question of adjustment subsequently to arbitration, or whether you make that a prior condition of coming in - i.e., you want the question to be settled before you come in?

SIR A. HYDARI: Do you refer to customs or other matters?

SIR M. DADABHOY: No, about the ceded territories.

SIR A. HYDARI: Well, I should like to explain my own personal position, that as regards the adjustments which are necessary for this, I personally would prefer, as I said in the very beginning in my statement, that we should start Federation on the present basis of receipts and expenditure and have this detailed financial exploration and make the adjustments afterwards; but I have been told that it would not be difficult to make all these enquiries and explorations and adjustments by the time that, humanly speaking, Federation can be given effect to.

SIR M. DADABHOY: But three or four other States - are they agreeable to your suggestion?

SIR A. HYDARI: Well, I have stated exactly what the States are agreeable to. Mysore wants the question of

cash payments should be dealt with immediately, before coming into Federation. Some of us, perhaps, do not want an adjustment.

SIR M. DADABHOY: We would like to hear Sir Mirza Ismail on that.

THE CHAIRMAN: Well, we will just let Sir Akbar continue. I do not want to get on to the detail yet.

SIR A. HYDARI: I mean with regard to this whole question 4, I, for instance, recognise that it is a very complicated one, it requires an investigation of very fine points, and it may take a very long time, or it may be done immediately - I do not know. I am not really committing myself to the position that I will not join unless my claim in this regard is settled beforehand; I do not find myself able to prevent my State from joining on that account; but remember that I am referring here to cessions of territories, not to assignments or leases.

SIR M. DADABHOY: That is quite clear. There is no question of assignment before us at present - only cession.

SIR A. HYDARI: With regard to State forces also I have got a particular position, but I think I would now like to make clear the position of the States, and it will be made more clear, I think, by Colonel Haksar and Sir Mirza Ismail and Mr. Krishnama Chari. My interest in this question is rather academic. My own main point is - and I think there I am joined by Mr. Krishnama Chari and others - that there should be no undue incidence of burden on our own subjects at

the expense of others - there should be no undue burden on one State at the expense of another, but all should be treated alike at the same time.

SIR M. DADABHOY: Is the question of compensation of State forces capable of easy settlement?

SIR A. HYDARI: Well, I do not know. I can only go upon the exposition which Colonel Haksar made the other day. He pointed out facts and figures to show as to how much the maintenance of these Indian State forces had led to a reduction in the general Army expenditure, which would mean that really they represent so much of the total expenditure on the Army, and that therefore, if there was any adjustment, it should mean so much credit to those States, on those principles, who are maintaining the Army. Of course, I myself again say that I do not want to claim any credit, because you will all remember that as on many previous historical occasions it was the Nizam, after the Panjdoh incident, who first came forward and wrote that celebrated letter in which he offered the Imperial State troops; and I do not think it is in accordance with the traditions of the Asafia Houses to claim any quid pro quo for an offer of assistance, an indication of friendship and alliance which ^{they} may voluntarily give; so I would not use those for a money value.

SIR M. DADABHOY: It was for the first time that Colonel Haksar the other day put forward a claim of this nature, I mean, in such a significant manner. The primary object of these State forces is the protection of their own territory -----

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SIR A. HYDARI: I do not think so, Sir Maneckjee.
So far as the Indian State forces are concerned, you must remember that what are referred to are called the Imperial Service troops, and they were, as their name signifies, real as a help to the Empire, and different States have undertake that in different degrees.

MR. IYENGAR: And from different motives.

SIR AKBAR HYDARI: And from different points of view. So that you cannot say that these State forces in their incidence represent the amount which each State should have borne if the whole amount of expenditure for defence had been put into a common pool and divided proportionately and scientifically.

SIR M. DADABHOY: But it must also not be forgotten, Sir Akbar, that the consideration for this was the maintenance of the State in preserving their sovereignty too.

SIR AKBAR HYDARI: Oh no; all that had been guaranteed by previous treaties, with previous troops, with previous sessions of territory, with previous alliances, and so on.

SIR M. DADABHOY: Yes, but that was the original idea.

SIR AKBAR HYDARI: That was the original idea before that, but not the idea underlying this. The idea underlying the Imperial Service troops was purely and solely for showing them as allies to the British Crown.

SIR M. DADABHOY: I am afraid the States are complicating the question of Federal Finance by putting forward this claim.

SIR AKBARHYDARI: I for my part am not putting it forward for my State.

MR. IYENGAR: May I put it in this way. I want to know the basis of this claim in respect of State troops. We did not deal with it because we thought it was only a matter of a moral claim, as Colonel Haksar described it; but I feel now, from what you have now said, that the action

of the States in incurring the expense of maintaining this Imperial Service Corps is wholly voluntary, is not it? It has not been imposed upon them either on account of an obligation which they owed to the paramount authority, or because it was considered that the financial burden which British India bore in respect of military defence should in part be borne by the Indian States. It was not on that footing that they were originally organised; it was on a wholly voluntary footing on the part of the States. Is that not so?

SIR AKBAR HYDARI: Yes; but there has been a recent development; you reduced your military budget. Then certain undertakings were obtained so that that reduction in the British Army could be effected. Certain understandings were obtained from the Indian States with regard to equipment, the right to call upon those troops and utilise them for the purpose of guarding internal railways, and so on. I mean definite obligations were obtained which went beyond what had been the original state of things.

MR. IYENGAR: It was originally voluntarily, but subsequently an obligation came to exist when the reduction of military expenditure in the Indian account had to be considered.

SIR AKBAR HYDARI: Yes, the British Indian account.

MR. IYENGAR: What I am saying is, we are here only dealing with the financial aspect of it.

SIR AKBAR HYDARI: Yes.

MR. IYENGAR: I want to know whether it is possible for you to say what is the financial equivalent which results to British India because of this.

SIR AKBAR HYDARI: I am not prepared to say that, because, as I say, these questions of these adjustments are so complicated and depend upon such a variety of considerations, that I would rather take things as they are, and then gradually develop them as circumstances and finances permit.

MR. IYENGAR: Yes.

SIR AKBAR HYDARI: But I should very much desire that this should be further developed by my colleagues who have more than an academic interest in the question.

MR. IYENGAR: You mean by Colonel Haksar, of course.

SIR C.E. WOOD: I would like to ask Sir Akbar something.

THE CHAIRMAN: Yes, certainly.

SIR C.E. WOOD: If I understand it aright, Sir Akbar holds that the whole pre-federation debt may be made federal provided there is a productive federal revenue to cover interest payments.

SIR AKBAR HYDARI: And redemption.

SIR C.E. WOOD: That is on No.2.

SIR AKBAR HYDARI: Interest and redemption.

SIR C.E. WOOD: Interest and redemption, yes.

THE CHAIRMAN: Service.

SIR AKBAR HYDARI: The service of the debt is the expression used.

SIR C.E. WOOD: And if it is found that there is not sufficient revenue, part of the income-tax should be assigned for that purpose. Does that mean that the States do not wish to take any account of the properties of the Central Government about which we are told in this note which was supplied by the Finance Department;—

"The Federal authority will/succeed to the whole ^{presumably} of the buildings and public works of all kinds which are at present the property of the Central Government. The replacement value of these is of course an enormous sum, though there are no exact data at hand for evaluating it."

Well, a great deal of that expenditure is out of the revenues of British India, and that is going to be handed over, that capital value is going to be handed over to the Federation, and more than compensates — we may take it I think — for any short fall that there may be in the revenues.

SIR AKBAR HYDARI: Sir Edgar, I say that if it does come to be so, then that Expert Committee will report upon it.

SIR C.E. WOOD: You did not say that, Sir.

SIR AKBAR HYDARI: No. For instance, take these properties of the Central Government. There is the Viceroy's house and there are all these other things. We shall have to consider, supposing a Federal Government had been started, in its inception with what buildings and with what sort of other permanent expenditure, the Federal Government ought to have been started in order to carry on its administration.

A suitable set-off for such expenditure would certainly have to be given. I mean we may not agree to having so many crores on account of New Delhi, for instance, as a suitable set-off against the uncovered debt; but certainly a considerable amount of it would have to be given, because we then become part of that Government of which Delhi is the capital, and we must have suitable housing for it. I think these are all details which would have to be looked into. I think the Finance Committee would look into this question exactly as a careful auditor would look into the matter if he were asked to report when there was a transfer of a business concern or additional partners were being brought into a business concern. In those circumstances an auditor would be asked to report and say on what terms the existing assets and liabilities should be taken over.

SIR C.E. WOOD: I see.

SIR AKBAR HYDARI: I mean the States concede that they will in future hypothecate themselves along with British India for the service of whatever debt is taken over, a liability from which they are at present free; and their credit will be affected in the same way as that of British India when they come into the federation.

SIR M. DADABHOY: You will not repudiate money spent on Delhi roads, for instance.

SIR AKBAR HYDARI: I will not go into all these details, Sir Maneckji. Let us first of all see what will be the really productive debt in the strictest sense; then what is the amount which is uncovered, and whether the uncove

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can be really apportioned in such a way that people who have got to look after the interests of their State subjects, for which British India is also so solicitous, can consider how far the interests of the State subjects should be affected.

SIR C.E. WOOD: Then your fifth proviso is that there should be no resort to taxes for federal purposes beyond those originally fixed; but there is no objection to a levy of further indirect taxes or to the creation of monopolies if it is found by an Expert Committee that further revenue is required for federal?

SIR AKBAR HYDARI: Not only if it is found and it is required but also as a certain reserve power..

SIR C.E.WOOD: Then that rules out what we suggested the other day about the corporations tax.

SIRAKBAR HYDARI: With regard to that, I think that if the expert committee came to the conclusion that the best thing would be a corporations tax, the States would agree.

SIR C.E.WOOD: You would modify that statement then.

SIR AKBAR HYDARI: I for one would modify it. I believe that in this expert committee there is sufficient ability, capacity, ^{and} justice to lay before us all the facts in the best way possible and then make its recommendation. But it should be borne in mind that it would be difficult to convince the States to agree to a modified tax being one of the reserve powers. If, however, the committee found that the advantages of the corporations tax outweighed the disadvantages they would put that in their submissions. There is one further point which has been suggested to me by Colonel Haksar, namely, that when it is stated that many of these properties belong to the British India Government, it should be remembered that a number of them have been created out of revenues which should have been, according to the contentions advanced, shared by the Indian States. That, however, is by the way.

MR. IYENGAR: Take the case of the Post Office. In commercialising the accounts we have taken the postal revenue to cover the capital expenditure on that head. We have had some part in the building up of this capital expenditure.

SIR AKBAR HYDARI: If it was paid for and you obtained an exact equivalent, then you have no surplus.

MR. IYENGAR: You agreed that nobody compelled you to go and post your letters --

SIR AKBAR HYDARI: You prevented us from having our own Post Office, and therefore, you got this revenue. However, those are details. We have given you a broad outline of the position that we wish to take. You will find that when the matter is explored in detail all these difficulties will vanish.

THE CHAIRMAN: I want to be quite clear about the debt position. You agree that the Federation should take over the whole of the debt?

SIR AKBAR HYDARI: With these two provisos. What you are referring to is the pre-Federation debt.

THE CHAIRMAN: The whole of the pre-Federation debt. You also say that the service of that debt should fall as a first charge upon income tax - that is to say, upon the States. It seems to me at least that the contention is that it should fall on the income tax as a first charge. There the whole of the service will fall unless there is from the revenue producing assets which are taken over such an amount of revenue as will meet it. That is rather a different proposition, because on the Post Office there is no such revenue.

SIR AKBAR HYDARI: And the railways.

THE CHAIRMAN: We were told a few days ago that the railways were to be run so that liabilities and assets balanced

each other.

SIR AKBAR HYDARI: After paying interest on the debt.

THE CHAIRMAN: After paying interest on that portion of the railway debt.

SIR AKBAR HYDARI: That comes to about 900 crores.

THE CHAIRMAN: There is a very substantial amount of service of debt that is bound to fall as a first charge on the income tax.

SIR AKBAR HYDARI: About 150 crores, and there will be a certain set-off on account of properties which we agree should be considered as federal.

THE CHAIRMAN. Would you consider that as revenue producing?

SIR AKBAR HYDARI: No, but the rent you would save thereby would come to the same thing.

MR. IYENGAR: Out of the total of that uncovered debt, you think that a part of the debt would be represented by the amount saved on daily expenditure, also you have to bear in mind the capital locked up in postal and other buildings. If you deduct all that, you would leave only a small sum, on which you would not undertake liabilities.

SIR AKBAR HYDARI: What I say is, why make any general propositions at present until we have found where the actual enquiry leads us? If it is a small amount you might trust to the political sense of the Indian States to say that it is not a matter worthy of being allowed to

complicate the whole thing. We would much rather give up our lien on income tax. But if it is found to be a very substantial amount the matter is a different one.

DR. SHAFI'AT AHMAD: So far as Hyderabad State is concerned, I understand that it is prepared to come here and now into the Federation?

SIR AKBAR HYDARI: If the political conditions are those which Hyderabad accepts. From the finance point of view what I want to say is that you will not find Hyderabad in the way; it will be more from the political and constitutional view that it is concerned.

DR. SHAFI'AT AHMAD: So far as the other States are concerned, I understand they would like to have an enquiry made by an expert committee before the Federation begins to function.

SIR AKBAR HYDARI: That is so.

DR. SHAFI'AT AHMAD: But Colonel Haksar ultimately said he was prepared to let all these questions be discussed after the Federation.

SIR AKBAR HYDARI: No, I think they want it all settled before the Federation comes into being.

DR. SHAFI'AT AHMAD: I was perfectly clear on the point that he was prepared to come into the Federation here and now, and to allow all these questions to be discussed later on by an expert committee.

SIR M. DADARHOY: Yes, but the states are entitled to reconsider their decision.

SIR A. HYDARI: It would be fairer to Colonel Haksar if he were to reply to the question instead of my replying to it.

THE CHAIRMAN: Do you want to make a further statement, Colonel Haksar?

COLONEL HAKSAR: I only want to draw attention to one point arising out of the questions which you put to Sir Akbar Hydari. He read his statement, as you are aware. You were talking about the Post Office just now. In the statement which Sir Akbar read there is the statement "If there be a balance, it should be a first charge on receipts from British Indian Income-tax or any similar direct tax on British India" and then the statement goes on to say "On the other hand, the States are prepared to agree that the Federal Government should take over the debt service of such departments, for example Posts and Telegraphs, as are made Federal". That point is therefore made clear there.

THE CHAIRMAN: That was not quite my point. I understood they were going to make themselves responsible for the debts and take over the assets subject to certain conditions. I think that was the way he put it.

COLONEL HAKSAR: I think the wording is quite clear. The States agree to the ^{debt} pre-Federation/being made Federal, provided that after examination it is found that the service thereof is covered by the receipts from the productive

British Indian assets made over to the Federal Government.

THE CHAIRMAN: Yes.

COLONEL HAKSAR: I think that what is implied there is this. We know there are productive debts, but we do not know exactly the yield of the assets and to what extent that yield may be regarded as certain. It is necessary to make sure what the position really is. So long as no external liability is laid on them, they do not see why they should object to the pre-Federation debt being treated as Federal. That is the position that has been explained.

SIR A. HYDARI: Quite.

COLONEL HAKSAR: And that is what is meant by the words "after an examination". We have the figures of the debt, and we are told that such and such debts are productive debts, but does anybody know what yield may be expected from those productive debts?

MR. IYENGAR: May I explain that? We put the proposition that you should take over the whole of the pre-Federation debt, on the footing that so far as the railways are concerned they are not expected to contribute to the general revenues of the Federal Government.

COLONEL HAKSAR: To which proposition we have since agreed.

MR. IYENGAR: And that thereby the railways - as you people apparently expected - would help in the service of

the pre-Federation debt. What we said was that the railways should be made self-supporting.

COLONEL HAKKER: That is right.

MR. IYENGAR: So far as these debts are concerned our position is this. We consider that having regard to the proposition we have put forward, namely that the assets that you have in your hands, including the sum allowed for redemption of railway debts from the ordinary revenue - we are putting down a reserve in the debt redemption scheme out of general revenues for the redemption of all our debts, including these railway debts - there is no need for us to contribute another 1 per cent from the railways to you. The proposition was that the assets we are handing over are sufficient to make you undertake the service of the entire pre-Federation debt. You said you wanted to examine that on the footing that the railways are to be merely self-supporting hereafter.

SIR A. HYDARI: What do you mean by "self-supporting"?

MR. IYENGAR: That they are not to contribute the 1 per cent contribution they are now making to the general revenues, and the only contribution that will be made is the provision already put down for the service of our debts, covered and uncovered, by means of the debt redemption scheme.

SIR A. HYDARI: My point provided that the entire service of the debt which is considered as a set-off on this account is covered.

MR. IYENGAR: That is right.

SIR A. HYDARI: And service means interest and redemption.

MR. IYENGAR: Quite.

SIR A. HYDARI: And it is a matter entirely for the Expert Committee to say how much it should be.

MR. IYENGAR: You think that unless it is clearly shown that the existing revenues of British India will pay the service of that debt entirely, you would not take any risk or any liability which might stand over in the existing debts? Supposing we find that the actual provision made out of the revenues is insufficient -----

SIR A. HYDARI: But to what extent?

MR. IYENGAR: Supposing the revenues give such a poor yield that you are not able to make provision for the Sinking Fund. That has happened in other countries, and it may come about in India.

SIR A. HYDARI: If the want of cover is a matter of ten or twenty or thirty crores, it does not matter very much; but if it is a matter of five hundred crores, how can we take that over? It is a matter of finding out really exactly where we stand. We say at present generally that we shall try to take as much of that pre-Federation debt and make it Federal as possible; but we cannot tell you straight off, without an examination of the figures to see what they represent, that we will do it, come what may.

MR. IYENGAR: I will therefore put the proposition quite plainly, if I may. In other words, you are prepared to take over the pre-Federation debt, provided the assets

we hand over to you are sufficient -----

SIR A. HYDARI: More or less.

MR. IYENGAR: ----- fully to satisfy the service of the debt; otherwise the States are not prepared to take the smallest risk?

SIR A. HYDARI: No, no; I said "more or less".

DR. SHAFI'AT AHMAD KHAN: That is rather vague, if I may say so.

SIR A. HYDARI: I think you would consider us to be fools, if I may say so, if we said we would take it over without enquiry.

THE CHAIRMAN: Never that!

SIR A. HYDARI: I think you will agree that it is our duty to make enquiries.

MR. IYENGAR: I do not deny for a moment that you have to do your duty by your States.

SIR M. DADABHOY: We have the statement now.

DR. SHAFI'AT AHMAD KHAN: May we have copies of sir Akbar's statement?

THE CHAIRMAN: Perhaps it will be possible to supply you with copies.

Do you want to make a statement, Colonel Haksar?

COLONEL HAKSAR: So many points have been raised under single heads --- defence, for example --- that if I tried to

deal with them all I should have to make a long speech, which I am not at all anxious to do. If you want me to give short replies to the points raised by Sir M. Dadabhoj when he was cross-examining Sir Akbar Hydari -----

SIR M. DADABHOY: I never cross-examined anybody!

COLONEL HAKSAR: ----- or to deal with what Dr. Shafa'at Ahmad said, I am entirely in your hands.

THE CHAIRMAN: I think some of the points which were raised about the Forces were rather detailed, and that we can deal with them better when we come to consider the draft report.

MR. IYENGAR: quite; We agree.

DR. SHAFAT AHMAD KHAN: I should like to know if Colonel Haksar is prepared to reply to my question about coming into the Federation.

THE CHAIRMAN: Yes, that is a broad question.

COLONEL HAKSAR: I am quite ready to deal with the whole position if you wish me to do so, but if you think I need not do it I shall deal only with the very small point which Dr. Shafa'at Ahmad raised.

THE CHAIRMAN: I think we can perhaps discuss later some of those other points, but I do not call the point to which you refer a small one; I think it is a large one.

COLONEL HAKSAR: He merely said that at the end of my remarks at our previous sitting, when I closed my case, I said something to the effect, or which was interpreted to mean, that the States were ready to come into the Federati

DR. SHAFA'AT AHMAD KHAN: I did not say "now"; I said they were prepared to come into the Federation, and all these questions concerning the rights of the States could be investigated by an Expert Committee after they had come in to the Federation.

COLONEL HAKSAR: I will explain what my intention was. I repeat that if you are willing that the States should come into the Federation on the present position they will do it, subject to the qualification that their claims are examined. The difficulty arises, however, from the circumstance that our friends are not willing that we should come into the Federation on the present position. The present position, according to my conception, means that the future Federal Government continues to draw from the States the revenues which British India is deriving to-day, and the States do not ask for the immediate satisfaction of their claims. That is my conception of the present position.

On the other hand, however, what has been said amounts to this: We are not willing that you should come into this Federation on the present position. Let the present position be maintained and let the future Federal Government derive and continue to derive all the advantages the British Government is deriving from the States to-day, and in addition do you mind foregoing your customs duties and taking over the responsibility and liability for the pre-Federation debt, and do you mind if we extend the corporation tax to you.

MR. IYENGAR: Who are "we"?

COLONEL HAKSAR: The future Federal Government.

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MR. IYENGAR: We and you.

COLONEL HAKSAR: That does not mean that the States would come into the Federation on the present position. I repeat again that if British India is willing to federate with the States on the present position as it exists now, the States would be ready to join the Federation, so far as I know their minds, subject to what Sir Akbar Hydari said, for example, that on the political and constitutional side details are so settled that they will be satisfied with them, and subject to the further qualification that their claims under these various heads are investigated impartially, and that it is understood that when they have been investigated, and when the revenues of the Federal Government permit, suitable arrangements will be made.

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I do not think the States would take up an unfair position. That is what I said the other day, and that is what I say to-day; but I am bound to point out that if our friends of British India insist that before joining the Federation the States should also accept the various suggestions I have made in regard to the abolition of their customs barriers etc., etc., that would not be coming in under the present position.

THE CHAIRMAN: I do not know whether you have anything further to say, Mr. Krishnama Chari?

MR. KRISHNAMAMA CHARI: I have nothing to add.

THE CHAIRMAN: Have you anything more to say, Colonel Haksar?

COLONEL HAKSAR: Since I have taken up so much of the time of the Committee, if you would permit me I would like to explain the position of the State forces in three minutes.

THE CHAIRMAN: In three minutes, yes.

COLONEL HAKSAR: You can time me, Sir.

THE CHAIRMAN: Yes, certainly.

COLONEL HAKSAR: I would put it in this way. The question arose, is it fair that when we are discussing Finance anything should be said as regards the State forces, even though they might be forces that are being maintained to-day for the service of Government. That is the position. It was further remarked that these forces are maintained by the States and would have to be maintained by the States for the

own security. If that is a fair statement of the implication of the questions that were asked just now, I would say first that we are discussing the formation of a Federation of the two parties, the British Indian Provinces on the one hand, the Native States on the other. Very well. We examined the present position with regard to the States, and, as I say, on their Treaty position the States are protected; they have to be protected against external aggression and internal commotion, whether they maintain any armies of their own or not. Now, I say that that proposition cannot be challenged. Why this undertaking was given is a different proposition; that can be examined by anybody who takes the trouble to go into the Treaties; but that is the present position. Very well. Therefore if the State chose to abolish all their armies, I maintain that the responsibility would still lie upon the present paramount power to defend them.

THE CHAIRMAN: You mean for any purpose, internal or external?

MR. IYENGAR: I am sorry you should drag that in, I think we will leave it alone. If you are going to drag in the question whether the States must maintain forces or not -----

COLONEL HAKSAR: Was it argued or was it not argued that these troops have to be maintained by the States for their own protection? I do not want to drag this in, Mr. Iyengar, at all; I have no anxiety to do so. You have only got to say, "We do not mean what we said" -----

MR. IYENGAR: I am prepared to prove, if you want to discuss it, that all this theory is wrong - the theory that we are inheriting only the obligations but no rights or powers

whatever.

COLONEL HAKSAR: If you maintain that that was wrong, that would be your individual opinion, because the matter has been enquired into. I am not talking about the interpretation of the Treaties by the States themselves, but about an authoritative interpretation of those Treaties which has been given out to the world.

MR. IYENGAR: You know that that authority has been challenged by a very high authority, for which I know you have a high regard. The authoritative interpretation which you speak of has been authoritatively examined.

COLONEL HAKSAR: I do not know what you mean.

MR. IYENGAR: I am speaking of Sir Tej Bahadur Sapru's statement in the Nehru Report.

COLONEL HAKSAR: To what effect?

MR. IYENGAR: The interpretation of this right which arises under the individual Treaties.

COLONEL HAKSAR: Before you go further, may I ask you when the Nehru Report was published?

MR. IYENGAR: 1928.

COLONEL HAKSAR: May I ask you when the Butler Committee's investigation was held?

MR. IYENGAR: Yes, 1930.

COLONEL HAKSAR: How could anything be challenged before it was given to the world, because the Nehru Committee met and

published its Report before the Butler Committee sat?

MR. IYENGAR: But the Nehru Committee had this claim before it.

COLONEL HAKSAR: I was talking about an authoritative pronouncement, not about my own interpretation; but we are getting away from the point.

THE CHAIRMAN: I think we can hear in a moment what Mr. Iyengar wants to say.

COLONEL HAKSAR: I thought you were anxious to hear what Mr. Iyengar was going to say.

THE CHAIRMAN: No, I was anxious for you to make your point, and if necessary we can hear Mr. Iyengar afterwards.

COLONEL HAKSAR: It is not correct to say that if the States chose to abolish their armies the responsibility would not devolve upon the Paramount Power to make an addition to their army for the protection of the States, and therefore I say that the net contribution of the States, apart from their direct contribution in the shape of cash payments or the revenues derived from ceded territories, is 2 crores and 38 lakhs of rupees which the States are to-day spending on their armies. To go back to the Treaty position again, under the Treaties the States may not maintain any armies, and yet the Paramount Power has chosen - I read from the letter of the Government - that they had better assume the responsibility over their internal security themselves. Either that position is wrong, or else this contention is correct.

SIR M. DADABHOY: But before the reduction in the Army took place you were maintaining your own troops to a certain extent, and incurring the expenditure.

COLONEL HAKSAR: Yes, still for the same purpose.

SIR M. DADABHOY: You were maintaining them,

COLONEL HAKSAR: Still for the same purposes, at least since 1885, since Lord Dufferin's time.

SIR M. DADABHOY: You are maintaining them for the protection of your own territories.

COLONEL HAKSAR: Yes. What is your point?

MR. IYENGAR: I should not like to go on with this, because I should have a good deal to say on it. I would ask you not to raise the point at the moment.

COLONEL HAKSAR: I do not want to, but do not you think that I was driven to the necessity of saying this because it was argued that no question of adjustment can arise in respect of the forces maintained by the States which have been incorporated into the British Indian Army?

MR. IYENGAR: If I may say so, you want a money equivalent for the Indian Government disbanding a few regiments, and you say that you would have entered your caveat against any reduction of military expenditure on the ground that your Treaties would compel the Paramount authority in India to maintain a much larger number of troops not for guarding India as a whole but for guarding your territories.

COLONEL HAKSAR: I have said no such thing. On the contrary, what I have said is that the reduction of the Army would not have been possible if the troops of the States had not been available. That is a very different thing from what you are saying.

MR. IYENGAR: No; What you are saying is that you agreed to a reduction of military expenditure -----

COLONEL HAKSAR: There was no question of agreement on my part, because I was not asked.

MR. IYENGAR: But the Government of India threw on you the responsibility for internal defence.

COLONEL HAKSAR: No; I say you were able to withdraw those troops because you were able to draw on us.

MR. IYENGAR: So you want compensation; is that it?

COLONEL HAKSAR: No. If I were not maintaining those troops, you would still continue to maintain them.

MR. IYENGAR: But what is the position if you did not maintain them?

COLONEL HAKSAR: You would have had to add to your Army to provide for me, internally and externally.

MR. IYENGAR: I have got a clear answer. In spite of that reduction they can get on.

THE CHAIRMAN: Well, I do not know that we can go into that.

MR. IYENGAR: So why go into it?

THE CHAIRMAN: I do not think we can now go into the size of the Army, and how large it is to be. May we get back

interesting and very intricate exchange of view between these two gentlemen, but can we get back now to the general financial question which we have raised?

COLONEL HAKSAR: Sir Akbar is not here. You have the statement before you, and it is just going to be circulated before all the members. Do you want any further elucidation?

MR. IYENGAR: I think this statement that has been made is a very important statement, and it certainly is a statement which we had no reason to believe would be the position which the Indian States would take on the proposal that you put before us; but it does raise important cleavages of opinion between our viewpoint and their viewpoint. That seems pretty obvious, and I think we have got to see whether it is really possible to arrive at some discussion. We want to think it over.

THE CHAIRMAN: To arrive at some discussion?

MR. IYENGAR: No.; we want to have some discussion among ourselves and see whether it is at all possible for us to agree to these very broad denials which they have given to some of our proposals.

THE CHAIRMAN: Well, we have had a great deal of discussion on these matters.

MR. IYENGAR: We have.

THE CHAIRMAN: I do not know whether this would meet you, that I should proceed to get well on with the draft report, which will have to embody these balancing views; and discuss it on that?

MR. IYENGAR: Yes.

THE CHAIRMAN: I only put that forward as a suggestion, because we might otherwise go on for ever.

MR. IYENGAR: You are quite right; probably that would help matters if you put them down in the form of concrete proposals.

THE CHAIRMAN: I am inclined to think it might help matters if we get it in a more condensed form in that way.

MR. IYENGAR: I quite agree; very well.

MAJOR ELLIOTT: I think that would be a great advantage. I have listened with very great interest to the two discussions: the one on the property assets, and the other on the extremely intricate matters of the relation of the forces in the States and the Federal responsibility. I have had some experience of those things on the League of Nations and I can well imagine the discussion going on for a very long time: whether, the Paramount Power,

in this case being represented by the League, having assumed responsibility for the defence of the frontiers of the various States, whether a reduction of armaments was to count as a debit or a credit at the time when the State was going forward. It seems to me that India has got a great deal further than Europe in the matter. I do not know whether a reduction in British armaments would be regarded as a subject for which they could reasonably claim compensation from the other power or not. But I think we have got a long way ahead of the actual immediate discussion, which is more particularly the property assets really and the real question of the debts.

MR. IYENGAR: Yes.

MARJOR ELLIOT: I have had a certain amount of experience of this in the relationship between local and central finance in this country. Of course, the great cities and so on are quite small concerns compared with the Indian States, and their relationship to the Centre is quite different; but there is no doubt it is one of the most fertile sources of difficulty when you are making a merger: to what extent you are to take over the assets, both the good and bad assets, of the previous units, what you are to allow for the service of those debts, and so on. I think it is a little difficult to say you will only take over the good assets and not the bad assets. I think you will find, even on that, that it will be very difficult to foresee what will be the good assets and what will be the bad assets. For instance, you might say that railways will be what we in our

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Budget call a self-balancing item. I am not at all sure, Lord Peel, whether, if we had nationalised our railways in this country even at the beginning of this century, they would be a self-balancing item or whether they would not be now making a large draught on the Exchequer.

THE CHAIRMAN: We have had a small example of that in the London Tramways.

MAYOR ELLIOT: Yes. I cannot think of anything more important than getting these matters down to some sort of concrete form, because an abstract discussion might go on indefinitely. I think Lord Peel's suggestion is a very valuable one, that we should get this into concrete form which we can then pull to pieces and re-arrange. Unless we have something definite before the Committee I think we shall find difficulty in coming to conclusions upon discussion of abstract matters before us.

COLONEL HAKSAR: I think that is the best way.

MR. IYENGAR: Mr. Chairman, I entirely endorse your suggestion that you should put these things into a concrete form, and we can then record our decisions.

THE CHAIRMAN: There is only one criticism I have to make of what Major Elliot has said: he said you might pull it to pieces. I only demur on that. Then can we get on any further now?

MR. IYENGAR: No; I think, since you have said that, the less discussion we have the better.

THE CHAIRMAN: Very well. We may be able to meet to-morrow.

COLONEL HAKSAR: Just as you like.

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MR. IYENGAR: Yes, if you get it ready we can meet tomorrow.

THE CHAIRMAN: I suppose you would want to read it through once?

MR. IYENGAR: Oh yes.

THE CHAIRMAN: That is the only difficulty about fixing a definite time for tomorrow. Shall we provisionally 12 o'clock tomorrow? That might give you time to read it through in the morning.

COLONEL HAKSAR: That ought to do I think.

MR. IYENGAR: I would even put it later: after lunch, half past two. If we really get it in time, it would give us more time.

THE CHAIRMAN: Could you give me a little latitude in that way?

MR. IYENGAR: Very well.

THE CHAIRMAN: Will you be at our disposal, as it were, in the morning or afternoon?

MR. IYENGAR: Certainly.

COLONEL HAKSAR: We have a meeting of our Delegation from 3 o'clock tomorrow; but that does not matter; we can postpone that quite easily.

THE CHAIRMAN: Thank you.

MR. IYENGAR: We leave it to your discretion, Sir.

SIR M. DADABHOY: If it is going to be an afternoon sitting, will Your Lordship make it about a quarter to three?

THE CHAIRMAN: Certainly. Then we will give you the earliest possible information, of course.

The sub-Committee adjourned at 12.6 p.m. until tomorrow at a time to be specified.