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24th Dec '30.

**THE ESSENTIALS OF FEDERAL
FINANCE**

BY THE SAME AUTHOR
THE FISCAL SYSTEM OF INDIA
SOME ASPECTS OF FISCAL RECONSTRUCTION
IN INDIA

THE
ESSENTIALS OF
FEDERAL FINANCE

A contribution to the problem of financial
re-adjustment in India

BY

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PREFACE

It is not necessary to offer any explanation for writing a book on the problem of *financial* re-adjustment at this hour. The importance of the problem is self-evident; and it is also obvious that the smooth working and the harmonious development of the new constitution will to no small extent depend upon the nature of its *financial* counterpart. The problem of national reconstruction has many aspects, and has to be approached with a due appreciation of the concrete facts of the present situation. But it has also to be realized that it can be solved only if a conscious attempt is made to express and develop a unity of purpose through all our national institutions. It will not do to attempt things piecemeal or deal with each problem of national life without taking into account the significance and bearing of the integral whole. For reconstruction we need vision and practical craftsmanship. Both are equally necessary; and one without the other will lead to a fragmentary, and therefore ineffectual, action.

Two points are intended to be emphasized in this book. First that we must pay due regard to the future and its needs. The latter is a living factor in the affairs of men, and anyone with an adequate understanding of the trend of things cannot fail to feel its impact at a thousand and one points in our daily life. Finance is a part of life, and a study of the working of the financial institutions of the different countries cannot but bring home to our minds the fact that a new world is in the making, and has to be reckoned in all our constructive efforts. The fact is borne

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in upon us if we make an earnest effort to understand the nature and meaning of the changes that are in progress in every sphere of life. But even in the domain of finance it is clear that there is what one author calls luminous confusion—a lack of order and symmetry, because the old is giving place to the new and the process of substitution has just begun. In India as elsewhere we have to make allowance for the fact and anticipate the future.

The second point, which is also of fundamental importance, is that we must show our understanding of the purpose implicit in things by handling the various outstanding issues in an adequate manner. The future is not going to burst upon us with a thunderclap and assert its ascendancy. It will become increasingly effective by informing the ideas and institutions of men with a new purpose. We must take things as they are and modify and transform them with a view to speed up our progress. This can be done only if we face facts and realize the limitations under which we have to work. We must set to our task in the spirit of an artist. Our limitations must be regarded as our opportunities, and we would use them as our material out of which a new pattern has to be woven and a new model hewn. The future and the past seem to be in conflict with each other, but the latter will give place to the former if it is properly understood and its exit facilitated by the adoption of adequate and effective measures, we must, in other words, liquidate the past.

These two points have been emphasized in this book in order to make a practical contribution to the problem of impending financial re-adjustment in India. The book is not a utopia in any sense of the word. It is concerned with the next step in our financial evolution, and its

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arguments are based on the assumption that India will be self-governing in a very large measure in the immediate future. At a time when the air is rent with war cries and the prospect of working out a solution of our political problem on the basis of mutual understanding is remoter than ever, it is not easy to get men to listen to the voice of reason and do strenuous thinking. But we have to take ourselves seriously and address ourselves to the problem of reconstruction in the hope that the freedom for which we are longing will soon be ours. It may be that those who have lost faith in the methods of persuasion and are resorting to direct action are in the right; but even then the work of reconstruction has to be seriously taken in hand. The problem of financial readjustment has to be solved in any case, and it is hoped that earnest students of our national problems will think out the various issues involved in the consideration of our financial problem, and find in this book material and arguments which will help them to come to the right conclusion with regard to them.

I must express my gratitude to friends who have helped me in various ways. To Mr. E. A. Horne, M. A., I. E. S., late Principal, Patna College and now Pro-Vice-Chancellor, Aligarh Muslim University, I owe more than I can tell. The patience with which he has corrected the proofs and the pains which he has taken over the whole book, and that at a time when his hands were otherwise so full, make it necessary for me to convey to him my sense of indebtedness for all that he has done for me. I needed just the kind of help that he has given me, and I cannot be too grateful to him for it. I also owe my sincere thanks to Dr. S. K. Maitra, M. A., Ph. D., Professor of Philosophy, Benares Hindu University, for having translated Dr. Albert Hensel's *Der Finanzsa*

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ausgleich in Bundes-Statton for me from German into English. I am also greatly indebted to Professor E. R. A. Seligson of Columbia University for his having replied to my queries with the utmost promptitude and cordiality. I ought to add that I alone am responsible for the views expressed in this book.

GYAN CHAND

24th April 1930

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