

# INDIAN PROVINCIAL FINANCE, 1919-39

*WITH SPECIAL REFERENCE TO THE UNITED PROVINCES  
AND WITH AN ADDITIONAL CHAPTER ON PROVINCIAL  
FINANCE UNDER THE 1935 CONSTITUTION*

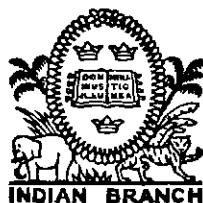
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WITH A FOREWORD BY

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## FOREWORD

Dr Misra's study of the development and problems of provincial finance in India is of great topical as well as of permanent academic interest. War conditions necessarily increase the importance and difficulty of raising and expending public monies, and although India is far from the seat of war, there are special reasons why the present moment is critical, in every sense of the word, for India's financial future. The outbreak of war found India on the eve of the erection of the coping-stone to the constitutional edifice which has been so long in course of construction, i.e. of the All-India Federation. Some may conclude that the halt to constitutional development necessitated by war preoccupations will simply postpone consideration of the financial problems involved, and result in a stagnant period, during which the construction of a long-term financial programme will be replaced by ephemeral schemes designed to make temporary provision for urgent war-time needs. But this attitude would be superficial and most unfortunate. It may be true that this is not the moment to suggest far-reaching changes in the general structure of the Indian financial system, but it most certainly is the moment to examine meticulously the existing structure, to make sure its foundations are well and truly laid, and to reconsider the lines along which progress can best be attained when it once again becomes possible to take up the task of constitutional reform. If the opportunity is lost, irreparable damage may be done.

Public administration, of which public finance is the very core, necessarily takes a pyramidal form. The base consists of local administration—entrusted to local authorities, such as the parish (in England) or the *panchayat* (in India)—upon which rests district administration, which in its turn supports (in India) provincial administration, and finally federal administration. The strength of the whole structure depends largely upon the soundness of its foundations. Hence the progressive realization of responsible self-government, and of Dominion

Status, depends ultimately upon the development of local self-government, and upon the proper administrative (including financial) co-ordination of the functions and powers of the whole series of authorities. But it is precisely in these spheres that there has, in India, been great weakness in the past. Local administration and finance are still in an embryonic stage, and until progress is made in this respect it is difficult to see how the provincial and federal financial systems can be reorganized and expanded along really satisfactory lines. The present 'halt' in constitutional development—however much it may be deplored on other grounds—could undoubtedly be utilized to great advantage for a thorough reconsideration of the principles which should permeate Indian public finance as a whole, and for the development and full utilization of the powers of local authorities. The reform and development of the finances and functions of the minor authorities form, indeed, a necessary preliminary to the creation of a sound and progressive future financial programme for India as a whole.

Dr Misra's study of provincial finance, which includes within its purview both local finance, the financial relations between the Provinces and the central authority, and the need for greater co-ordination, throws much light upon the weak spots in the existing system and on the principles which should guide financial reform. These principles are analyzed in relation to welfare in the broadest sense of the term, and not merely in relation to formal financial considerations. Above all it can be said that Dr Misra has depicted the complicated story of the development of the present financial system and has analyzed the outstanding relevant problems not in order to promote the programme of a particular party or group of interests, but from a broad and detached—i.e. a truly independent and scientific—point of view.

My pleasure in introducing this work to the public is enhanced by the fact that it was my duty to act as Dr Misra's supervisor during his recent two years' residence in London. Throughout that period I was much impressed by his untiring pursuit of knowledge, his deep desire to consider all aspects of his chosen theme, and his independence of thought. His re-

commendations will, no doubt, provoke criticism and controversy, but it can at least be said that they represent the honest conclusions and judgements of a well-informed student of India's economic and financial problems.

VERA ANSTEY

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*November 24, 1939*

## PREFACE

Provincial finance has so far been studied mainly from the point of view of the allocation of resources between the Central Government of India and the Provincial Governments. Little or no attempt has been made so far either to analyse the provincial tax structure or to examine the effects of the provincial expenditure on the life of the people. I have attempted in this study to fill this gap.

With this object, a brief historical survey together with a detailed account of the Montagu-Chelmsford Reforms and the Meston Settlement is given at the outset. This has been followed by an examination of the main heads of revenue and expenditure and their effects on the life of the people. Next, the various problems of local taxation are examined and the need for co-ordinating the tax policy of the Provincial Governments and Local Authorities is pointed out. Lastly, suggestions are made regarding the future policy of the Provincial Governments.

The work originally undertaken was to examine the financial arrangements of the Reforms period, 1919-37. I have, however, added an additional chapter on Provincial Autonomy pointing out the constitutional and financial relationship between the Government of India and the Provincial Governments under the Government of India Act, 1935. It is difficult to pass judgement on the working of Provincial Autonomy as the period of its working has been not only too brief but has also been interrupted by the resignation of Congress Ministries in several Provinces.

Finally, I have come to the conclusion that the task of a Government in India, whether 'alien' or 'Indian', in face of the vastness of the area, the phenomenal increase in population, the uneconomic outlook of the people, and too much reliance on Government, is particularly difficult. Hence, together with change in the financial policy the removal of some of the fundamental obstacles in the way of the 'arrested' economic development of India is advocated.

It is thus, it is suggested, that provincial finance may be utilized as a means for the improvement of the condition of the masses in India.

In the preparation of this work, I have received invaluable help from Dr Vera Anstey of the London School of Economics. Without her guidance the work would never have seen the light of day. It is impossible for me to express adequately my deep sense of gratitude to her. Dr Frederic Benham, Sir Ernest Cassel Reader in Commerce in the University of London, corrected several chapters of the work and offered useful critical comments at every stage of the investigation. I am grateful to him for the help.

I am also obliged to the Librarians of the London School of Economics, the High Commissioner for India, and the India Office, for the abundant facilities which they always placed at my disposal.

Dr Vera Anstey has kindly written the Foreword to the work. For this kindness, my special thanks are due to her.

I am beholden to Sir S. Radhakrishnan, Vice-Chancellor, Benares Hindu University, for allowing me the privilege of dedicating the work to him.

Finally, I must express my thankfulness to my publishers, the Oxford University Press, for the care they have bestowed on the preparation of the MSS. for the press.

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*July 31, 1941*

# CONTENTS

	PAGE
I. INTRODUCTORY ... ..	1
§1. POVERTY AMIDST PLENTY—Causes of arrested economic development—Object of this study—Diversity of economic conditions—The provinces of British India—Areas and population—Occupational distribution of the people—The monsoon and the budget—The promotion of irrigation—The size of the holdings—The geographical distribution of industries—Conclusions.	
§2. CONDITIONS OF FINANCIAL REFORM—(i) <i>Possibility of augmenting government revenues</i> —Lines of financial reform—Scope for retrenchment—A change in attitude towards taxation—Taxation is a matter of compromise—(ii) <i>Principles underlying the allocation of resources between the federation and federating authorities</i> —Allocation of functions—Distribution of resources, principles of efficiency and suitability—The principle of adequacy—The principle of transferences—Allocation between different services—(iii) <i>The allocation of resources between the central government and the provinces</i> —Allocation a matter of compromise—Allocation of the principal sources of revenue—Balancing factors.	
§3. LOCAL FINANCE—Need for co-ordination—Onerous and beneficial services—Principles of local finance—Plan of the work.	
II. HISTORY OF PROVINCIAL FINANCE (1833–1919)	37
§1. CENTRALIZED SYSTEM OF FINANCE (1833–71)—The Charter Act of 1833—Defects of the system—India Councils Act (1861)—A period of deficits.	
§2. FINANCIAL LANDMARKS IN THE LATER NINETEENTH AND EARLY TWENTIETH CENTURIES—Lord Mayo's Reforms (1870)—Advantages of the scheme—Defects of the scheme—Lord Lytton's Reforms (1877)—Settlements of 1882—Defects of Quinquennial Settlements—Quasi-permanent Settlement (1904)—The advantages of the Quasi-permanent Settlements—Permanent Settlements (1912)—Defects of the Permanent Settlements—Conclusions.	



### III. THE MONTAGU-CHELMSFORD REFORMS ... 58

- §1. **THE CONSTITUTIONAL BASIS**—The introduction of limited responsible government—'Central' and 'provincial' subjects, 'reserved' and 'transferred' subjects—The administration of transferred and reserved subjects—The principle of joint responsibility—Local self-government.
- §2. **THE CHANGES IN THE FINANCIAL SYSTEM**—Abolition of divided heads—'Imperial' and 'provincial' sources of revenue—Difficulties in equitable provincial financial settlements—Provincial contributions—Criticism of the basis of the provincial contributions—The Meston Committee—The Meston Award—Initial contributions—Standard contributions—Changes made by the Devolution Rules—Provincial loan account—Irrigation under the Reforms—Provincial borrowings—'Scheduled taxes'—Provincial budgets—Conclusion.

### IV. THE MESTON SETTLEMENT AND ITS RESULTS 82

- §1. **THE WORKING OF DYARCHY**—The administration of reserved and transferred subjects—Joint or separate purse—The defects of dyarchy.
- §2. **THE EARLY FINANCIAL DIFFICULTIES IN THE WORKING OF THE MESTON SETTLEMENT**—The unforeseen economic circumstances—Heavy central and provincial deficits—The difficulties in the early abolition of provincial contributions—Conclusion—Provincial contributions (1921-7).
- §3. **THE MESTON SETTLEMENT EXAMINED**—The division of functions between the central and provincial governments—  
 ✓The provincial sources of revenue were inelastic—The central sources of revenue were elastic—The necessity for provincial contributions—The so-called injustice of the Meston Settlement examined—Defects of the Meston system—Conclusion.

### V. PROVINCIAL AUTONOMY ... .. 107

- §1. **CONSTITUTIONAL BASIS**—Provincial autonomy a natural development—Distribution of legislative powers—Essence of provincial autonomy—Main features of provincial autonomy.

- §2. THE CHANGES IN THE FINANCIAL SYSTEM—Introductory—Allocation of sources of revenue between the federation and the federal units—Distribution of income-tax and corporation tax—The distribution proposed—The report of the Second Peel Committee—White Paper proposals—Joint Committee report—Sir Otto Niemeyer's report—Deficit provinces—Export duty on jute—Summary of various forms of assistance—Review of the report—Conclusion.

## VI. THE FINANCIAL SYSTEM AND ADMINISTRATION ... .. 132

- §1. THE FINANCIAL SYSTEM UNDER THE REFORMS, 1919—Scope of the chapter—Functions of the Finance Department—Position of the Finance Department—Criticism of the Finance Department—Working of the joint budget—Voted and non-voted items—Standing Finance Committee—Public Accounts Committee.
- §2. PROVINCIAL AUTONOMY, 1937—Financial procedure—Non-votable heads of expenditure—System of demands for grants—Conclusions.

## VII. LAND REVENUE ... .. 144

- §1. INTRODUCTORY.
- §2. REVISION OF LAND POLICY—(i) *Defects of land revenue*—A tax *in rem*—An element of progression should be introduced—Advantages of the scheme—Should an uneconomic holding be exempted from the payment of land revenue or rent?—(ii) *Abuse of tenant law*—Illegal exactions—(iii) *Provincial inequalities caused by permanent settlement*—(iv) *Taxation of agricultural incomes*.
- §3. CONCLUSIONS.

## VIII. IRRIGATION, FORESTS AND EXCISE ... .. 164

- §1. IRRIGATION—Irrigation under the reforms—Revenue from irrigation—Nature of irrigation finance—The basis for water charges—Conclusion.
- §2. FORESTS—Area under forests—State control—Theory of forest finance—Indian forest policy—Forest revenue and expenditure—Conclusion.

- § 3. **EXCISE**—Introductory—Lessons from American experience—Excise policy of the Provincial Governments—Revenue from excise—Hemp drugs—The Congress prohibition programme—Conclusion.

**IX. MISCELLANEOUS TAXES** ... .. 193

- § 1. **STAMPS, REGISTRATION AND COURT FEES**—Theory of taxes on transfers of property—Objections to stamp duties—Income from stamps and registration—Principal guides to stamp rates and registration fees—Court fees.
- § 2. **DEATH DUTIES**—The equity of death duties—Objections to death duties—Types of death duties—Probate duties in India—The rates of probate duties and their yield—The law on probate duties—Mitakshara and Dayabhaga law—Results of the differences in laws—The best method to make all succession liable to taxation.
- § 3. **SCHEDULED TAXES**—Taxation of Entertainments—General considerations—Taxation of betting—Betting tax in India.
- § 4. **CONCLUSIONS**—The burden and incidence of taxation—  
✓ Regressive nature of the tax system.

**X. PROVINCIAL EXPENDITURE** ... .. 222

- § 1. **EXPENDITURE ON LAW AND ORDER**—Introductory—Expenditure on law and order.
- § 2. **EXPENDITURE ON DEVELOPMENT DEPARTMENTS**—(i) *Education*—Primary education—Secondary education—University education—Summary and conclusion—(ii) *Medical and Public Health*—Review of public health services—Public health and epidemics—Public health and local authorities—Medical department—Medical aid and local authorities—Lack of voluntary help—Medical relief for women—Summary and conclusion—(iii) *Agriculture*—Difficulties in agricultural improvement—Land revenue not the cause of poverty—Agriculture and state policy—Agricultural marketing—Conclusions—(iv) *Industries*—Need for a better-balanced economic system—Famine relief fund.
- § 3. **CONCLUSIONS.**

XI. THE PROVINCIAL BUDGETS ... ..	253
§ 1. BUDGETARY POLICY (1921-39)—Introductory—Initial financial difficulties—Review of revenue and expenditure (1921-39).	
§ 2. STAGNATION OF REVENUE—Progress of revenue under principal heads—Conclusions.	
XII. LOCAL TAXATION ... ..	271
§ 1. INTRODUCTORY.	
§ 2. THE PROBLEM OF AREAS AND FUNCTIONS—Causes of decay of village communities—The area served by the district boards is too large—Optimum size of local bodies—A plea for the revival of village <i>panchayats</i> —Re-allocation of functions between district boards and village <i>panchayats</i> .	
§ 3. MAIN SOURCES OF INCOME OF LOCAL AUTHORITIES—Income of municipalities—Income of district boards—(1) Taxes on trade—(2) Taxes on property—(3) Taxes on persons—(4) Fees and licenses—Conclusions.	
✓§ 4. FINANCIAL CO-ORDINATION BETWEEN THE LOCAL AUTHORITIES AND PROVINCIAL GOVERNMENTS—Need for <u>grants-in-aid</u> —Advantages of <u>grants-in-aid</u> — <u>Grants-in-aid</u> : their need in India—Principles of <u>grants-in-aid</u> : percentage grants and <u>block grants</u> —Summary—Local indebtedness: Conditions under which local authorities should borrow—Conclusions.	
XIII. SUMMARY AND CONCLUSIONS ... ..	295
§ 1. RECENT TENDENCIES IN PROVINCIAL FINANCE AND POLICY.	
§ 2. THE PRESENT OUTLOOK—The fundamental obstacles to the development of social services.	
§ 3. POSSIBLE LINES OF PROGRESS.	
APPENDIX I ... ..	303
SOME PRINCIPLES OF TAXATION.	

APPENDIX II	...	...	...	...	...	329
LEGISLATIVE LISTS.						
BIBLIOGRAPHY	...	...	...	...	...	339
INDEX	...	...	...	...	...	343