

VIEWS OF THE GOVERNMENT OF
BENGAL

ON THE REPORT OF THE

INDIAN STATUTORY COMMISSION.

SECRET.

GOVERNMENT OF BENGAL.

Appointment Department.

No. 222 A.C.

FROM W. S. HOPKYNS, Esq., C.I.E.,
O.B.E., I.C.S.,
*Chief Secretary to the Government
of Bengal,*

TO THE SECRETARY TO THE GOVERN-
MENT OF INDIA,
REFORMS OFFICE.

Calcutta, the 22nd August 1930.

*Views of the Government of Bengal on
the Report of the Indian Statutory
Commission.*

SIR,

With reference to last paragraph of Appendix A to my letter No. 219 A.C., dated the 15th August 1930, on the above subject, I am directed to submit herewith a note, dated the 16th August 1930, on communal representation by a Hindu member of Government.

I have the honour to be,

SIR,

Your most obedient servant,

W. S. HOPKYNS,
*Chief Secretary to the Government of
Bengal.*

Note dated the 16th August 1930, on communal representation by a Hindu member of Government.

The Hindu members of Government were opposed to the continuance of communal representation. They did not think it necessary to enter into any general discussion affecting the question, because the arguments for and against such representation were so well-known. They, however, desired to include in their memorandum certain special points apart from the well-known general points. They further wanted to examine the question particularly from the point of view of the problem affecting this province. Before the memorandum was finally prepared one of the Hindu members of Government unfortunately tendered his resignation. It was not possible, therefore, to complete the whole memorandum as one submitted jointly by the Hindu members. Both the Hindu members however were opposed to the continuance of communal representation. The remaining portion of the memorandum, therefore, represents the opinion of the only Hindu member who is left in the Government.

This member is of opinion that communal representation has prevented a sense of common citizenship growing up. It has perpetuated cleavage between the two communities and such cleavage has, in the opinion of the member, resulted in physical conflicts and creation of disruptive forces, dangerous to the structure of society. It has at times resulted in such tense feeling between the two communities as to affect the normal life of the people. Within recent years there were communal conflicts on a large scale in Calcutta, Kulkati in Barisal, Madaripur in Faridpur, extending to portions of the eastern tracts of the district of Barisal, in Pabna, twice in Dacca and at Kishorganj in the district of Mymensingh. On each of these occasions the communal feeling became bitter and intense. In the opinion of the member it is neither necessary, nor relevant, for a proper consideration of the question at issue, to apportion the blame between the two communities. The only relevant point is the existence of the bitter feeling. In Dacca on both occasions the Hindus charged the Muhammadans with unprovoked assaults and the Muhammadans reciprocated the charge. Many members of both the communities believed in these charges and counter charges. There was considerable loss of life and property and the position of the authorities whose duty it was to maintain peace became acutely difficult. In Dacca the Muhammadans complained that the Hindus refused to employ Muhammadan masons and hackney carriage drivers. When the Hindu peace-makers approached the members of their community on this point they were met with the reply that the Muhammadan masons and hackney carriage drivers were responsible for loss of life and property of the Hindus and so they did not want to employ them. At Kishorganj a whole countryside was reduced to a state of panic, considerable property was looted and a number of persons were brutally murdered. It has been suggested by the Muhammadans that a good deal of this lawlessness was due to the fact that money-lenders and the wealthier men mostly came

from the Hindu community, the debtors and the poorer men from the Muhammadan community. It was further suggested that the origin of the trouble was economic and not communal. Whatever the origin might have been the actual result is well-known. It is clear that these communal conflicts seriously affect the economic side of life of the general citizen.

During the Calcutta riots this member along with a number of Hindus and Muhammadans tried to form a peace committee to relieve the communal tension. His experience of the efforts of the Calcutta peace committee convinced him that influential members of both communities who had political ambition and desired to stand for election either from Hindu or Muhammadan seats were very reluctant to take a helpful attitude. They were afraid of their chances of success in the next election, whether for some seat in the Calcutta Corporation or in the Legislative Council. He is convinced that if the important citizens of both the communities knew that in the next election it would be necessary for them to approach the voters of both the communities, then they would have tried their utmost to relieve the communal tension and approach the questions before them from a very different spirit.

Five years ago communal feeling in Bengal on the Hindu side, at any rate, was negligible. The leading men amongst the Hindus, who were Bengalis by birth, had very little of communal feeling against the Muhammadans. When the Hindu Sabha and the Sangathan movement was started in other parts of India it made very little impression on Bengalis by birth. The Bengalis by birth were so averse to taking up this movement that the Hindu Sabha had to look to a Marwari or upcountry gentleman, Babu Padmaraj Jain, to be the Secretary. The sympathisers of the movement were mainly confined to the Marwaris and other orthodox upcountry men who settled in Bengal. Hindu orthodoxy in the sense as it obtains in other parts of India is a rapidly diminishing factor in Bengal. For that and other reasons the Bengalis did not sympathise with the Hindu Sabha or the Sangathan movement. An examination of the activities of the Hindu Sabha movement and of the personnel of the committee of that Sabha will show that there were very few well-known Bengali Hindus interested in it. The physical conflicts and the resulting lawlessness of the Calcutta riots created a change for the worse in communal feeling amongst the Bengali Hindus. The Pabna riots made the position worse, and the Dacca and the Kishorganj affairs have accentuated that feeling. Even at the present moment, in spite of these disturbing factors, communal feeling is not as bad as it is represented to be. The best incentive to recruitment to the Hindu communal camp is these riots and the physical conflicts. In the opinion of the member one important factor which is increasing the bitterness between the two communities in Bengal is the creation of public opinion on communal lines. This in his opinion is the direct result of separate

electorates. The attitude taken or supposed to have been taken by a number of high police officials, particularly in the districts, have created a feeling amongst a considerable section of the Hindu community that these officials are pro-Muhammadan and anti-Hindu. This state of feeling may be unfortunate, but it exists. As the struggle for power in opposite communal camps will increase the position of the British officials is likely to become more and more difficult. This, in the opinion of the member, is an additional reason for abolishing separate communal electorates.

In the opinion of this member the great danger before the country to-day is the increase of disruptive forces of society so as to affect the economic life of the people. Maintenance of law and order to ensure liberty of action may be difficult, but not a tenth as difficult as taking adequate steps to minimise forces so insidiously affecting the economic life of the people. In his opinion communal representation is a source of great danger with regard to the last mentioned point. The greater the rivalry between the leading men of the two communities for division of political power the greater the danger to the economic structure of the society if communal representation be perpetuated.

One Muhammadan objection against joint electoral bodies was that such bodies would elect only those Muhammadans who are sympathetic to the Hindus. There may be a good deal of substance in this objection in provinces like the Central Provinces where the Muhammadan percentage* was only 4.1, Madras where that percentage was only 6.6, in Bihar and Orissa where the percentage was only 10.6, in the United Provinces where the percentage was 14, and in Bombay where the percentage was 20.4. But in Bengal and in the Punjab, where the percentage was 52.7 and 54.8 respectively, there is no force in this contention. On the other hand, the Hindu community might well apprehend that in these two provinces only Hindus sympathetic to the Muhammadans would be elected. The Simon Report at the bottom of page 71 of Volume II has hinted at introduction of joint electorates for Bengal and the Punjab. The member desires to draw attention to it.

Then again in Bengal the Muhammadan population being large, electioneering education of such population on communal lines has increased and will increase still further the cleavage which will lead to physical conflicts on a much larger scale than in the other six provinces where the percentage is small.

The district board elections in Bengal, particularly in Eastern Bengal, demonstrate the fact that the Muhammadans do not run any risk of returning pro-Hindu members of their community. These elections further prove that in spite of the supposed superior wealth and position of the Hindus, Muhammadans are returned in such large numbers as to form a majority.

If the system of joint electorate be adopted in Bengal then the Hindus run a serious risk of the elections being dominated by the

*The figures for the percentages are taken from the Census of India of 1911.

Muhammadan majority, but in the wider interest of creating a sense of common citizenship the Hindus are willing to take this risk. They are by no means blind to the fact that in the first few elections they are likely to suffer materially. If joint electorates be accepted for Bengal then it will be necessary for the Franchise Committee to examine the question of allocation and reservation of seats for both the communities.

Assuming that communal electorate will be perpetuated in Bengal it will be necessary to determine the principle which will govern the numerical strength of the elected members of the two communities. In the opinion of the member, the Simon Report has given as favourable a decision as possible to the Muhammadan community in Bengal. Neither the Muhammadan members of the Government of Bengal nor the British members have given any cogent and satisfactory reasons for deviating from the decision of the Simon Report. He would point out that the majority community has no right to ask for separate electorate. It ought to be against all fundamental ideas of justice that if in the 6 out of the 8 provinces weightage be given to the Muhammadan community, if in these 6 provinces their representation be not on the population basis, then their representation in the two provinces where they are in a majority should also be on a population basis. It is not fair to claim the advantages both ways and to disregard the disadvantages. The member is constrained to remark that the attitude of the British members of the Government in this respect is incompatible with their claim to hold the balance between the two communities evenly. One British member of the Government, when submitting the memorandum of this Government before the Simon Commission, dissented from the proposition that the representation of the Muhammadans should be on the basis of their population ratio. What induced that member to change his opinion has not been made clear.

Communal representation was first introduced when the Morley-Minto scheme was under discussion. The introduction of communal representation at that time was an act of the British authorities. The sixth point mentioned in justification for communal representation was that "with joint electoral bodies only Muhammadans sympathetic to the Hindus would ever be elected." (Simon Report, vol. I, page 184.) It has already been pointed out that this point cannot have any application to Bengal. Lord Minto no doubt accepted the arguments of the Muhammadans. He was then dealing primarily with the all-India aspect of the problem. Further, under the Morley-Minto scheme there was no question of wide electorates or representation on the basis of population. The decision which followed the inauguration of the Morley-Minto scheme gave a representation which was actually very much less than what should be on the population basis. The separate representation obtained by the Muhammadans in the Imperial Council was only 5 seats, 1 for each of the three Presidencies, 1 for the United Provinces and 1 for Bihar and Orissa. In the provincial Councils, Madras and Assam were to have 2 Muhammadan members,

Bombay, Bihar and Orissa and the United Provinces 4 each, and Bengal 5 only out of a House of 50 containing 27 elected representatives. In the Punjab special protection was not considered necessary. Under the Montagu-Chelmsford scheme the Muhammadans gained a great advantage, but such advantage was not based on the decision of the British authorities, nor was it based on an examination of the justice of the case. It was based on a compromise arrived at between the two communities by what is known as the Lucknow Pact. That pact no longer exists. One of the communities has expressed in no unequivocal terms that there should be no communal representation. The question, therefore, has to be examined on its own merits. If the question be examined on its own merits it is necessary to take into consideration not only the population and the voting strength but also the contribution of each community to the taxes of the provincial and of the central Governments. A question like that can only be conveniently examined by a special committee. The member desires to suggest that such a committee should be set up. The committee should consist of an equal number of Hindus and Muhammadans with some public men from England. The public men should be selected from persons who have an open mind. The member desires to express the opinion that if in Bengal the question be considered

by an impartial committee from the points of view mentioned by him, then it is extremely likely that the number of seats to be separately reserved by communal electorate to the Muhammadans will not be more than 30 per cent. of the total number of the elected seats.

He desires further to submit that as the basis of the compromise embodied in the Lucknow Pact is no longer in operation, the number of Muhammadans in the Central Legislature should depend not only on the population basis for the whole of India but on the voting strength and the rating strength of the members of such community. Once the total number of the seats to be reserved for the Muhammadan community in the Central Legislature has been fixed, then it should be left in the first instance to the members of that community in the different provinces to allocate the number of seats in the Central Assembly as also in the provinces. After the members of that community in the different provinces have agreed to do so, then the Hindu community should be heard on that point and a final decision should be arrived at.

The member also desires to refer to the previous memoranda submitted by him on the subject when this question was discussed by the Government of Bengal in connection with their memorandum to the Simon Commission.

Secret.

GOVERNMENT OF BENGAL.

Appointment Department.

REFORMS.

No. 921 A.D.

FROM W. S. HOPKYNs, Esq.,

Chief Secretary to the Govt. of Bengal,

TO THE SECRETARY TO THE
GOVERNMENT OF INDIA,
REFORMS OFFICE.

Dated Darjeeling, the 15th September 1930.

SIR,

In continuation of letter No. 219 A.C., dated the 15th August 1930, I am directed to communicate for the information of the Government of India the observations and conclusions of the Government of Bengal on the financial proposals of the Indian Statutory Commission.

2. The foundation of these proposals is an attempt to apply certain general principles to Central and Provincial finances so as to secure a uniform basis for the provincial settlements. The alternative to this would be settlement with each of the provinces on the basis of needs. This would entail a detailed and laborious investigation by an expert and independent committee such as was proposed to be undertaken in 1919 and it is at least doubtful if its results would be any more satisfactory to all parties than those of the scheme propounded by the Commission. This Presidency having been very adversely affected by the last financial arrangements, the Government of Bengal feel that they have strong grounds for pressing for at least a preliminary adjustment so that they may enter upon the new régime unburdened by the effects of their financial disabilities during the last ten years. They recognize, however, that Bengal is not peculiar in this respect, that some of the other provinces would have claims to similar treatment and that all these would be difficult to assess and adjust. But whether any attempt in this direction is made or not, they consider it of para-

mount importance for the success of the new constitution that Bengal at all events should start with fresh and increased resources. While therefore, without prejudice to any possible preliminary adjustment, they accept the suggested uniform settlement in preference to one on the basis of needs, they desire to emphasise the necessity of the Government of India organising their finances in the immediate future in such a way that the provincial Governments may obtain a substantial share of the revenues, which it is proposed to transfer to them, from the very inception of the new constitution.

It is emphasised by both the Commission and Sir W. Layton that their financial scheme is intimately bound up with the federal nature of their general constitutional proposals and particularly with their recommendation for indirect election to the Central Legislature. The Government of Bengal recognize that a federal constitution increases the desirability of a uniform basis for the financial arrangements between the Federal Government and its constituent parts, but they are not equally satisfied that, to quote Sir W. Layton, the "endeavour to ensure that responsibility for imposing additional taxation is definitely laid on those who will have to incur additional expenditure" necessarily involves a scheme of indirect representation in the Central Legislature. In fact this would only seem to follow if it be assumed—and the assumption is by no means self-evident—that the provincial representatives in the Central Assembly would necessarily vote upon instructions received from the Provincial Finance Minister with whom under the proposals the initiation of additional taxation would rest.

3. The main assumption on which the Commission's proposals rest is that, while the expenditure of the Central Government ought to remain more or less stationary, their revenues will progressively increase, thus enabling them to release more and more funds for the benefit of the Provinces. The Government of Bengal are unaware of the facts on which Sir W. Layton based his calculations and have not the material on which to frame any informed criticism, but it seems to them that his figures are very much more optimistic than even he admits, being based on assumptions of rapid recovery from worldwide economic depression, absence of internal and external disturbing factors, and the willingness

of the Imperial Government to assume part of the liability for military expenditure. In view of the extremely hypothetical nature of these assumptions, the Government of Bengal consider it most doubtful whether it will be at all possible to frame such a time-table as Sir W. Layton contemplates for the release to the Provinces of sources of Central Revenues. In fact, as was the case with the Meston Settlement, it must in their opinion rest with the Central Government to decide when any surplus shown in the Budget is evidence of a reliable margin of receipts over expenditure sufficient to justify the permanent sacrifice of productive revenue. When, however, this condition has been reached and any source of revenue has been transferred for the benefit of the Provinces, it will, in the opinion of this Government, still be necessary to allow sufficient elasticity to the revenues of the Central Government to enable it to cope with emergencies and they agree with the suggestion contained in paragraph 163 of the Report that in such cases a surcharge could be levied for the benefit of the Central Government on any such source of revenue. They feel, however, some doubt whether even such a provision will by itself be sufficient and incline to the view that the Central Government must retain the power to fix the rates at which the various taxes are to be levied for provincial purposes; otherwise they might in an emergency find themselves without a taxable margin and the suggested surcharge would be infructuous. They are further of opinion that it will be desirable to retain some such provision as that of the present Devolution rule 19 to ensure that the Central Government can in case of need call upon the provinces for assistance.

4. The time-table suggested being hardly a matter of practical politics, it seems that the provinces will for a more or less indefinite period get no appreciable share of Central revenues. They will thus have to depend at the outset upon the other features of the scheme for any improvement in their financial position. Before examining these, however, the Government of Bengal desire to point out that in the meantime circumstances may arise in which from time to time the Central Government will find itself in possession of a substantial surplus though it cannot reckon upon its recurrence. It seems reasonable that the provinces should benefit from any such surpluses and that these should be distributed to them on some such automatic basis as is

suggested for the "Provincial Fund". It might be necessary to lay down that the provinces should apply such wind-falls to non-recurring expenditure or to reduction of debt, but the main point is that, while waiting to share in the results of a permanent improvement in the Central Government's financial position, they can fairly claim to share in any temporary excess of Central Revenue over expenditure.

5. The resources of the Provinces, as contemplated by the Commission, will consist of the following:—

- (1) Existing provincial sources of Revenue, less commercial stamps and High Court fees.
- (2) Terminal taxes.
- (3) Surcharges on personal incomes liable to income-tax.
- (4) Increased excise duty on foreign liquors.
- (5) Fifty per cent. of the yield of personal income-tax when released by the Central Government.
- (6) All the income-tax on agricultural incomes.
- (7) Share of the "Provincial Fund."

6. As regards the first item, it is to be noted that the receipts in Bengal from commercial stamps when last calculated amounted to Rs. 41 lakhs, while the receipts from miscellaneous High Court fees, *i.e.*, those not paid in judicial stamps (which as proposed in paragraph 347 of the Report will remain provincial) come to about Rs. 3·27 lakhs annually.

As regards the increased excise on foreign liquors, it has been calculated on present rates that the increase in receipts in this Presidency will be about Rs. 27 lakhs. Sir W. Layton reckoned that, as far as the Central Government are concerned, the loss on foreign liquors and the gain on commercial stamps will about balance, but it will be seen from the above figures that this Presidency will stand to lose about Rs. 17½ lakhs annually. The Government of Bengal do not, however, oppose the suggested adjustment of these two heads and the High Court fees, provided that this lee-way is made up elsewhere.

7. As to the second item, terminal taxes, the situation in Bengal is complicated in this respect in that a terminal tax on passengers is already levied for the Calcutta Improvement Trust, one on goods is levied for the present Howrah Bridge and one on passengers is proposed

for the Howrah Improvement Trust. But apart from this and from the difficulty of calculation and collection, it seems likely that, if imposed on the scale suggested by Sir W. Layton, terminal taxes will amount to an excessively high surcharge on railway freights, which is to be deprecated on general grounds and will be strongly resented by trading interests. On these considerations the Government of Bengal are of opinion that the proposal is hardly within the bounds of practical politics.

8. As regards the taxation of agricultural incomes, it is not very clear from paragraphs 269 and 270 of the Report whether the intention is that this should be imposed Centrally or Provincially, but in the opinion of this Government, apart from the difficulties presented by the varieties of land revenue systems obtaining in different parts of India, this is a tax which could be imposed only by a responsible Government, and it may be accepted as certain that no Legislative Assembly, at any rate in the next few years, would pass such a taxation bill. The subject has often been discussed before, *e.g.*, by the Taxation Enquiry Committee, and it is beset with serious political, legal and administrative difficulties which it would be unwise to ignore or to minimise. Also the estimate of yield has varied from less than Rs. 1 crore to Rs. 3 crores. Sir W. Layton assumes Rs. 5 crores, which would appear to be far too high a figure. In paragraph 269 of the Report it is stated: "Increased productivity, together with the rise of prices since pre-war days, has enormously increased the money value of India's agricultural products." If we consider that one of the major difficulties at the moment is the heavy fall in prices of agricultural produce, *e.g.*, cotton and wheat, and that raw jute in the present year is touching absolutely rock-bottom prices, Sir W. Layton's generalization is open to severe challenge. As regards the possibility of taking agricultural income into account for the purpose of calculating the rate of income-tax, this seems open to precisely the same objections as a tax on the agricultural income itself, which it would in effect be. The Government of Bengal, therefore, consider that the proposal to tax agricultural incomes, either directly as such or indirectly through the rate, is one that must be rejected.

9. It thus appears that the only sources from which the provincial

Governments are likely to secure increased revenue are the surcharge on personal incomes liable to income-tax (item 3), half share of personal income-tax (item 5) and their respective shares of the Provincial Fund (item 7). The date when they will receive any share of the personal income-tax is, as already noted, exceedingly uncertain and therefore this source must be excluded in considering the financial condition of the Provinces at the inception of the Reforms. As regards the proposed surcharge on personal incomes, the Commissioner of Income-tax, Bengal, has furnished the following figures as the total income-tax realized from personal incomes:—

		(In thousands.)
		Rs.
1927-28	...	1,74,11
1928-29	...	1,92,22
1929-30	...	1,95,76

This gives an average of Rs. 1,87,36,000 per annum. This, on the supposition that the maximum surcharge is at once imposed, gives an additional revenue of Rs. 46.84 lakhs annually, but it should be borne in mind that this yield depends on the maintenance of satisfactory economic conditions, and that a trade depression such as is being experienced at present will materially affect it. It further seems open to doubt whether the Provincial Finance Minister would take upon himself the onus of proposing to impose the maximum surcharge at the outset. Apart from that, however, the Government of Bengal accept the proposal that provincial Governments should be empowered to levy this surcharge.

10. The "Provincial Fund" is to include the following:—

- (1) An excise on tobacco (paragraph 272).
- (2) An excise on matches (paragraph 273).
- (3) The duty on salt to be transferred if and when the Central Budget permits.
- (4) Any other tax of the kind which may be subsequently imposed.
- (5) Ultimately a proportion of the Customs revenue.

Of these items it seems unlikely that (3) and (5) will find their way into the Fund in the near future. It also seems unlikely that further taxation on the lines of the proposed excises on matches and tobacco will be introduced or carried for a considerable period. It thus appears that at the outset the Provincial Fund will be limited to these two excises, but the Government of Bengal have been unable

to discover at what stage of the constitutional changes the necessary legislation to impose them is to be carried. The natural assumption is that, while provision for constituting a Provincial Fund is to be included in the new Government of India Act, the actual legislation to introduce the new taxation will have to be proposed and carried in the new Federal Assembly. If this is the correct view, it seems by no means an unreasonable possibility that that body will refuse to pass the requisite legislation, in which case the Provincial Fund will be a mere name without substance. For present purposes, however, it is assumed that this legislation will be successfully carried through. Sir W. Layton reckons that these excises will yield about Rs. 8 crores at the end of 10 years over the whole of India. What initial yield may be assumed has not been stated. This, however, is a point which will be discussed later. It is sufficient for the present to say that the Government of Bengal approve the idea of establishing this Provincial Fund. They are, however, not so satisfied as to the proposals regarding its future modification. In fact they find considerable difficulty in understanding the formula "a majority of the representatives of two-thirds of the Governors' Provinces, including for this purpose the North Western Frontier Province," which is given in paragraph 163 of the Report. It presumably refers to the elected representatives of the Provinces on the Federal Assembly and excludes nominated and other members, but even so its exact implications are obscure and it reads as if three of the larger Provinces could successfully block any proposal for reallocation or redistribution of the Provincial Fund, however, unfair the original arrangement might have proved to some of the others. The Government of Bengal consider that the procedure proposed is likely to be too rigid and would prefer some simpler machinery which would ensure a periodical revision. In view of the possibility of conflicting provincial interests, resulting in a deadlock, they also consider it desirable to reserve to the Central Government the power of initiating taxation for the benefit of the provinces.

11. It is proposed that the Provincial Fund, when constituted, is to be distributed to the Provinces on the basis of population and, while recognizing that this may operate unfavourably to the less populous provinces, the Government of Bengal consider that it is the most satisfactory course to pursue. It is in fact difficult to conceive any other

solution which would not involve a consideration of provincial needs, a method which as already indicated bristles with difficulties and seems hardly likely to produce a more satisfactory result.

12. The application of the Commission's proposals to the finances of Bengal may now be considered in the light of the foregoing observations. As already noted, it has not been stated what yield may be expected from the excises on matches and tobacco when first introduced, but if Sir W. Layton's estimate of Rs. 8 crores for the whole of India after 10 years is at all correct, it may not be unduly optimistic to take half of this as the initial yield. On this basis the share of Bengal at the beginning on the population basis would amount to Rs. 82 lakhs. The yield from a surcharge on personal incomes of the maximum amount would, as shown in paragraph 9 above, amount to Rs. 46·84 lakhs. The total increase to Provincial revenues would thus be Rs. 128·84 lakhs, but against this is to be set off a reduction of Rs. 14 lakhs from the excess of receipts from commercial stamps over the new excise on foreign liquor and some Rs. 3·27 lakhs on account of High Court fees, as well as increased expenditure on account of the separation of accounts and audit which has not yet been calculated, but which may be taken as being in the neighbourhood of Rs. 5 lakhs; on the other hand there will be a substantial reduction in expenditure of about Rs. 17 lakhs under the High Court. If Rs. 5 lakhs be taken as the cost of accounts, the total improvement to provincial finance, if all expectations materialize, would thus be about Rs. 123½ lakhs as shown in the statement below :—

<i>New Receipts.</i>	<i>Lakhs.</i>	<i>Rs.</i>
Surcharges on personal income. ...	+ 46·84	
Share of Provincial Fund ...	+ 82·00	
Total ...	128·84	
<i>Adjustments.</i>		
<i>Decreased Receipts.</i>		
1. Commercial stamps <i>minus</i> new excises. ...	- 14·00	
2. High Court Fees ...	- 3·27	
<i>Increased Expenditure.</i>		
3. Accounts ...	- 5·00	
	- 22·27	
<i>Decreased Expenditure.</i>		
4. High Court ...	+ 17·02	
Net ...	- 5·25	- 5·25
Result	+ 123·59

From the figures of 1928-29 and 1929-30 as given in paragraph 9 above, it appears that the collections of personal income-tax in Bengal amount to about one-ninth of the total collections of income-tax in India. If therefore Sir W. Layton's anticipation of an increase of Rs. 5 crores in 10 years is correct, the provincial surcharge on the same assumption as above will come to one-fourth of one-ninth of Rs. 5 crores, which equals Rs. 13·88 lakhs, bringing the total surcharge to Rs. 60·72 lakhs. Similarly, if his estimate of Rs. 8 crores for the Provincial Fund at the end of 10 years materializes, the share of Bengal will be Rs. 164 lakhs. Allowing the same adjustments as in the previous calculation for High Court, Excise, Commercial Stamps and Accounts, the net improvement in the provincial position at the end of 10 years without any assistance from Central revenues would be Rs. 219·47 lakhs. This figure falls far short of that which the Government of Bengal consider essential to the proper development of the province, but, if and when the Government of India are in a position to release the share of income-tax suggested by the Commission or the salt revenue for the Provincial Fund, the improvement in Bengal's resources will rise to a figure which may be considered adequate. It must, however, be remembered that the foregoing calculations are based upon so many hypothetical factors that it is quite within the bounds of possibility that the new régime will produce no improvement at all.

13. The Commission's proposals regarding borrowing powers and provincial balances remain to be considered. The former may be summarised as follows:—

- (a) The loans raised by Provincial Governments should be subject to standard regulations and their raising should be co-ordinated.
- (b) To this end a Council of Provincial Finance Ministers should be instituted, over which the Finance Member of the Government of India should preside. Its tasks should be "to establish a borrowing programme, to lay down the standard regulations, and to arrange terms with the Government of India." It should, however, be advisory only for the present, and the real

power should vest in the Central Government. On the other hand, it is contemplated that the latter should not act without consulting the Council, since it is specifically stated that consultation should invariably be made before special sanction is refused to a loan even where such sanction is definitely required by the regulations.

- (c) As responsible Government in India develops, the Council may cease to be a mere advisory body and may acquire real power.

These proposals, in the opinion of the Government of Bengal, should be accepted in the main though some elasticity should be provided to allow of provinces assuming complete control of, and responsibility for, their own finances, it being quite conceivable on the one hand that a province might command better credit than the Central Government and on the other that the credit of the latter might be gravely impaired by bad finance in one or more provinces.

14. As regards provincial balances, Sir W. Layton's reasons for recommending that the Provincial Balances should not be separated are given in paragraph 310 of the Report, and in the last sentence of paragraph 189 the Commission say that they agree generally in Sir W. Layton's observations in regard to the keeping of Provincial Balances. There is no strong demand for a change and the Government of Bengal accept the proposal that matters should remain as they are as far as the Provincial Balances are concerned. It is possible that at some time in the future an autonomous Provincial Government may desire to maintain its own balances, but the matter may be considered when that demand arises.

15. The foregoing paragraphs deal with the main features of the scheme contemplated by the Statutory Commission but certain points of detail require further examination, as well as some of their miscellaneous suggestions.

16. To return to the proposed provincial excise duties on foreign liquors, which are considered in paragraph 291 of the Report, although at first view the suggestion is simple and attractive, closer examination reveals innumerable practical difficulties of which intricate interprovincial

adjustments, a multiplication of bonded ware-houses and a general clogging of the trade are a few. It, therefore, seems preferable that a uniform customs duty should continue to be levied and the proceeds, after deduction of the "luxury duty" portion, distributed among the provinces, either according to consumption or through the Provincial Fund according to population.

17. As regards the suggested excise on matches, a subject which has already been under discussion between the Government of India and Local Governments, the Government of Bengal agree that this should be centrally fixed at a uniform rate throughout India. They realize that, before the excise can be introduced, agreements will have to be reached with the Indian States, and as this is likely to delay matters considerably, they would urge upon the Government of India the necessity of getting their proposals into definite shape as early as possible.

18. The same applies to the proposed excise on tobacco. Sir W. Layton seems to have had cigarettes particularly in mind, but it appears to this Government that the excise should be imposed on all forms of factory-produced tobacco. The question of taxing raw tobacco or of imposing vend licenses may well be left to the provincial Governments to take up if they please.

19. In paragraph 275, Sir W. Layton suggests that cesses on land might be suitably increased. Actually an Act has just been passed in this province imposing an additional cess for the purpose of primary education. Any proposals for its further increase must be left to the provincial Governments and legislatures, but seem likely to meet with very considerable opposition.

20. As regards the proposal in paragraph 267 of the Report that the lower limit of liability to income-tax should be further reduced and the general rate of progression steepened, this Government, while expressing no opinion on the latter proposal, doubt if there are good grounds for adopting the former. Lower individual incomes already pay more tax than is levied in the United Kingdom in the case of married persons owing to the family deductions allowed there, while to lower the limit would mean the imposition of a tax which would fall mainly upon the lower grades of salaried employees of Government. Such a proposal would be greatly resented and the Go-

vernment of Bengal doubt if the yield would be so much in excess of the cost of collection as to justify its imposition.

21. The question of death duties has been under the consideration of this Government since 1922 and was last investigated in connection with Mr. Burdon's letter No. F-3-(XIII)-F-27, dated the 28th November 1927, but no definite decision has been reached. Their tentative opinion is that this is a matter for provincial legislation, though it will probably be necessary to reserve to the Centre control over the rate of tax in order to avoid differences between provinces.

22. A reference is invited to paragraphs 346 and 347 of the Report in which it is proposed that the administration of the High Courts and the expenses thereof should be transferred to the Central Government, the latter being compensated by making High Court fees a source of central revenue; it is at the same time suggested that judicial stamps should remain provincial. The intention apparently is that all fees which are not paid in stamps should be credited to Central revenues. It has already been pointed out in paragraph 6 of this letter that the income from fees not paid in stamps amounts to about Rs. 3.27 lakhs. The income from fees paid in stamps (Rs. 27.11 lakhs) which includes the very important item, probate duty (Rs. 16.27 lakhs), is very much greater, and the Government of Bengal would like to be assured that this revenue will not be taken from them. As pointed out in paragraph 12 of this letter, the adjustments resulting from the transfer of commercial stamps, excise on foreign liquors, accounts and the High Court would mean a net loss to this province of Rs. 5½ lakhs. If the probate duty and High Court fees realized in stamps are also transferred to the Centre, the position of this province will be worse than it is at present to the tune of Rs. 32 lakhs and upwards while its increased receipts are, to say the least of it, highly problematic. The question is thus one of the utmost concern to this Government and they are anxious that the transfer of the High Court should not involve any change beyond the actual proposal contained in the concluding portion of paragraph 347 of the Report.

23. As regards the separation of accounts and audit, this Government agree that this is desirable in theory and they will be ready to put it into practice as soon as funds permit. For the purpose

of previous calculations the additional cost has been taken at Rs. 5 lakhs annually. But this is a pure guess and it may work out at a much higher figure. The United Provinces which alone have introduced this separation have had, it is understood, to incur an additional expenditure of some Rs. 9½ lakhs, but against this have to be set off not inconsiderable savings which have resulted from the separation. If and when this change is introduced, the Local Government will have to rely, at all events for some years, upon the Central Government supplying officers from their Accounts cadre to conduct the work for them.

24. Although it is recognized that no time-table can be fixed for the surrender to the provinces of Central sources of revenue, it is not unreasonable to expect that the Central Government will be in a position as time goes on to make increasing surrenders, and the question will arise in what order the surrenders should be made. Sir W. Layton's proposals which have been endorsed by the Commission definitely recommend that a start should be made with income-tax in order to benefit the industrial provinces, particularly Bombay and Bengal. The Government of Bengal naturally prefer that a share of income-tax should be surrendered first as they stand to gain thereby, but the difference between that and receiving a share of the salt revenue on the population basis will not be so great that they would stand in the way of the latter being chosen first. Presumably, however, the question as it first arises will not be whether the whole of salt or the half share of personal income-tax is to be transferred; the position will be that the Central Government will have a certain surplus upon the recurrence of which they feel that they can rely and the question will be whether this is to be distributed to the provinces through the Provincial Fund on the basis of population by the surrender of a portion of the salt tax, or on the basis of origin as a portion of the income-tax. In the view of this Government it would probably be fair to all provinces if half of the surplus was taken under one head and half under the other.

25. Although the provincial Governments are hardly concerned in the matter, the Government of Bengal agree with the proposal in the concluding portion of paragraph 311 that the present provision requiring the authority of an Imperial Statute for the raising of Sterling loans by the Secretary of State can be abolished, and they do not see any objection to the further proposal that the function of

borrowing in London should be transferred from the Secretary of State to the High Commissioner.

26. In paragraph 187 the Commission recommend that the present restriction on spending money from provincial funds on central subjects and *vice versa* should be relaxed and that it should be rendered constitutionally possible under suitable restrictions to assist provincial objects from central funds. They do not state what they consider to be a suitable restriction, but there should not be any difficulty in devising a formula to enable such mutual assistance to be given for purposes which are of general as well as of local interest, and the Bengal Government support the proposal.

27. In paragraphs 160 and 161 of the Report the Commission propose to retain the power of initiating measures of taxation for Central purposes exclusively in the hands of the executive and to make no change in the existing system of voting estimates. This means that the initiation of proposals, both for taxation and for expenditure, is to remain with the executive. The Government of Bengal consider that this is essential and that it should be definitely laid down that this principle is to apply in the provinces as well as in the Central Government. This would not prevent the local legislatures passing resolutions recommending certain expenditure to Government, but the introduction of the actual proposals for such expenditure must rest with the Government itself and be introduced by one of the Ministers.

28. There remains the question of territorial adjustments. These, if the Commission's proposals are adopted, will involve the transfer of two small blocks of land to the new Oriya-speaking province and the exclusion of the Chittagong Hill Tracts and possibly the Darjeeling District. This implies important adjustments of both revenue and expenditure, but it has been considered premature to examine at this stage the actual financial effects.

29. Before concluding the Government of Bengal desire once more to lay stress upon the imperative necessity of ensuring that the provinces obtain increased resources from the introduction of the new constitution. Attention has already been drawn to this in paragraph 2 of this letter, while the problematical nature of the effects of the proposed scheme has been stressed in paragraphs 10, 12 and 22. No scheme of constitutional reform, however satisfactory in theory will have any

chance of success unless the financial position of the provinces can be improved from the very beginning. The present political movement has affected the income and expenditure of both provincial and Central Governments, and it seems essential that steps should be taken at once to restore financial stability if the provinces are not to enter upon the new régime with empty purses and with no immediate prospect of replenishing them. It thus appears to be of the utmost importance that the Government of India should take immediate steps to add to their resources by increased taxation in order that they may be in a position to

surrender some portion of the income-tax or salt duty to the provinces as soon as the new constitution is introduced.

30. In conclusion I am to express the regret of this Government for the delay which has occurred on account of a variety of causes in the submission of these views.

I have the honour to be,

SIR,

Your most obedient servant,

W. S. HOPKYNs,

Chief Secretary to the Govt. of Bengal.