

JOINT MEMORANDUM
SUBMITTED BY
THE BRITISH INDIAN DELEGATION
TO
THE JOINT PARLIAMENTARY COMMITTEE
ON
INDIAN CONSTITUTIONAL REFORM.

NOVEMBER 1933.

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INTRODUCTION.

1. The Memorandum in which we submit our views on the various issues raised by the White Paper scheme has been prepared in two sections. In the first section we have stated the principal modifications that should in our opinion be made in the scheme in order to satisfy moderate public opinion in India and have indicated very briefly the reasons justifying them. In the second section we have attempted to answer the chief criticisms directed against the basic principles of the White Paper proposals.

We have throughout kept in view the declaration of policy made by the Prime Minister at the end of the first Round Table Conference on behalf of the last Labour Government and endorsed by the present National Government and the present Parliament. The salient sentences of that declaration are as follows.:

“The view of His Majesty’s Government is that responsibility for the government of India should be placed upon Legislatures, Central and Provincial, with such provisions as may be necessary to guarantee, during a period of transition, the observance of certain obligations and to meet other special circumstances, and also with such guarantees as are required by minorities to protect their political liberties and rights.

In such statutory safeguards as may be made for meeting the needs of the transitional period, it will be a primary concern of His Majesty’s Government to see that the reserved powers are so framed and exercised as not to prejudice the advance of India through the new constitution to full responsibility for her own government.”

It is in the light of this declaration of policy that we have examined the White Paper proposals. The modifications we suggest do not affect the basic structure of the scheme. They are intended to ensure that the reserved powers are so framed and exercised as not “to prejudice the advance of India to full responsibility”, and to secure that the period of transition is not indefinitely extended.

PART I.

Preamble to the Act.

2. We consider that the preamble to the Constitution Act should contain a definite statement that the "natural issue of India's constitutional progress is the attainment of Dominion Status". This declaration, as Lord Irwin explained in the announcement he made on behalf of His Majesty's Government on October 31, 1929, is in accordance with previous public declarations of Ministers of the Crown and also with the directions given in the Instrument of Instructions by His Majesty the King "that it is His will and pleasure that the plan laid down by Parliament in 1919 should be the means by which British India may attain its due place among His dominions". That the expression "Dominion Status" was not used in a ceremonial or honorific sense is clear from the following extract from the message conveyed to India by His Majesty the King-Emperor, through H. R. H. the Duke of Connaught on the solemn occasion of the inauguration of the new Central Legislatures in 1921.

"For years, it may be for generations, patriotic and loyal Indians have dreamed of *Swaraj* for their Motherland. To-day you have beginnings of *Swaraj* within my Empire, and widest scope and ample opportunity for progress to the liberty which my other Dominions enjoy."

Indian public opinion has been profoundly disturbed by the attempts made during the last two or three years to qualify the repeated pledges given by responsible Ministers on behalf of His Majesty's Government. Since it is apparently contended that only a definite statement in an Act of Parliament would be binding on future Parliaments, and that even the solemn declaration made by His Majesty the King Emperor on a formal

occasion is not authoritative, we feel that a declaration in the preamble is essential in order to remove present grave misgivings and avoid future misunderstandings.

Date and conditions for the inauguration of the Federation.

3. We consider that, following the precedent of some of the Dominion Constitutions, a definite date after the passing of the Act should be fixed by the Constitution Act for the inauguration of the Federation. We have been assured that no serious difficulty is now anticipated in the way of an early establishment of the Reserve Bank and we have also been authoritatively informed by the witnesses who appeared on behalf of the Princes' Chamber that a period of one year would be sufficient for the negotiations in connection with the Treaties of Accession. If it is feared that unforeseen difficulties might delay the inauguration of the Federation, power might be given to His Majesty's Government to postpone the date by means of a Royal Proclamation.

In making this suggestion we have in view the psychological effect of such a provision on the political parties in India. The uncertainty that must necessarily result from the absence of any definite date in the Constitution Act for the inauguration of the Federation and the possibility of further delay arising from the procedure of an address in both Houses for the issue of a Proclamation would seriously prejudice the formation or realignment of political parties in India. On the other hand we have reason to suppose that if a definite date were fixed, even the parties which are dissatisfied with the White Paper Constitution would probably cease to carry on an agitation on the present lines and would be encouraged to concentrate their

attention on the new elections. We attach very great importance to this development since the satisfactory working of the new scheme must necessarily depend on the existence of well-organised parties, prepared to work the scheme.

The Reserved Subjects.

4. We have accepted the necessity for the reservation, during a period of transition, of Defence, Foreign ~~The Army~~, Affairs, and the Ecclesiastical Department. We regret to note, however, that in spite of the insistent demands of the Indian Delegates at the Round Table Conference for greater control over Army administration and the promise contained in the Prime Minister's declaration that the reserved powers will not be so framed and exercised as to prejudice the advance of India to full responsibility, the White Paper provisions relating to the Army, so far from giving Indians greater opportunities for influencing Army policy, actually make the constitutional position in some respects worse than at present. While at present the Governor-General and his Council, three Members of which are Indians, "superintend, direct and control"* the military government of India, the Governor-General, assisted by a Counsellor appointed at his discretion, will in future solely determine Army policy. A direction in the Instrument of Instructions to encourage joint consultation between the Ministers and Counsellors is obviously no satisfactory substitute for the opportunities which the present statute affords to the Indian public of expressing its views through the Indian Members of the Executive Council. Past experience of the actual working of a similar direction to Provincial Governors as regards joint consultation between Executive Councillors and

* Government of India Act, Section 33.

Ministers justifies this statement. In Madras under Lord Willingdon joint consultation was invariably the practice, while in some other provinces separate meetings of the two sections of the Executive were the rule rather than the exception. Nor were these variations due to local circumstances, for in the same province under different Governors the practice has been different.

5. We summarise below the modifications that should in our opinion be made in the White Paper provisions relating to Defence.

(1) (a) The Army Counsellor should be a non-official Indian, preferably an elected member of the Federal Legislature, or one of the representatives of the Indian States in the Federal Legislature.

(b) There should be a definite programme of Indianization with reference to a time limit of twenty or twenty-five years, and one of the primary duties of the Indian Army Counsellor should be the provision and training of Indian officers for the programme of Indianization.

(2) The Treasury control now exercised in respect of Army expenditure by the Finance Member and the Finance Department should be continued under the new constitution. We fully recognise that in cases of differences of opinion, the decision of the Governor-General, who is ultimately responsible for Defence, should be final.

(3) All questions relating to Army policy and the annual Army budget estimates should be considered by the entire Government, including all the Counsellors and the Ministers. We again recognise that if the united Cabinet should fail to arrive at an agreement regarding the expenditure to be included in the budget, the Governor-General's decision should be final. This is the minimum that would satisfy the Indian public, especially as the White Paper scheme involves the abolition of the Governor-General's

Council, the Indian members of which have not only influenced Army policy but have actually participated in the determination of that policy.

(4) There should be a statutory Committee of Indian Defence constituted on the lines of the Committee of Imperial Defence. The Committee should consist of the Commander-in-Chief and other Army experts, the principal Federal Ministers and any other Ministers including representatives of the Indian States whom the Viceroy may at his discretion select.

(5) The cost of Defence is primarily an administrative issue but the scale of Army expenditure is a dominant factor in the financial situation and seriously reduces the margin available for the nation-building services. Our views on this subject are well known to His Majesty's Government. We merely repeat our request that an endeavour should be made further to reduce the military expenditure very substantially and that the provisions we have suggested above to ensure economy in Army administration should be given effect to in the Constitution Act.

(6) The assurance given by the Secretary of State that the Indian Army would not be employed outside India (except of course for the purpose of the defence of India itself) without the concurrence of the Federal Legislature should be given the form of a definite provision in the Constitution Act.

6. We consider that it is unnecessary to provide for more than two Counsellors for the three Reserved Departments, since the administration of Ecclesiastical affairs does not involve any appreciable work and can easily be entrusted to the Army Counsellor.

Other Reserved Subjects. We have been assured that it is not the intention to appoint more than two Counsellors but the provision for a third Counsellor in Proposal 12 has created some misapprehension in India, for it is feared that if a third Counsellor is appointed and is placed in charge of the special responsibilities of the

Governor-General, there is considerable danger of his developing into a super-Minister whose activities must necessarily take the form of interference with the work of the responsible Ministers.

Financial Safeguards.

7. In view of the great importance that has been attached at the Round Table Conferences to the sterling obligations of India and of the attempts that have been made in this country to exploit the nervousness of the investor for political purposes, we have analysed in the second part of our Memorandum in some detail the debt position of India. Three conclusions emerge from this analysis.

(1) In the first place five-sixths of India's debt is covered by productive assets, which are mainly State railways and irrigation works.

(2) In the second place the internal Rupee debt of India is nearly one and a half times the sterling debt and an appreciable portion even of the latter is held by Indian investors.

(3) In the third place a considerable portion of the Rupee debt is held by millions of small investors belonging to the upper and lower middle classes who are politically the most vocal section of the population and among whom nationalist feeling finds expression in its most intense form.

The significance of these conclusions lies in the fact that any factors that affect the stability of India's finances or its credit in England would have serious repercussions on India's internal credit.

8. We must also draw the attention of the Committee to another feature of India's debt. The total expenditure incurred by India on the Great War was £207. 5* millions or about

*The figures in this paragraph are taken from the publication "India's contribution to the Great War" published by the authority of the Government of India.

Rs. 311 crores at the rate of exchange prevailing at the time. Of this sum the *direct* contribution from Indian revenues towards Great Britain's War expenditure was £146.2 millions or Rs. 220 crores, nearly two-thirds of which was found by borrowing. These figures include the gift of £100 millions but *not*, of course, the numerous private gifts or the contributions of Indian States. If British India's total contributions towards Great Britain's war expenditure and the interest paid on War borrowings had been utilised for wiping out the sterling debt of India, the sterling debt to-day would have been very small; for a substantial portion of the amount was borrowed before the War at low rates of interest and until recently the securities were quoted at rates very much below par. We fully recognise that these enormous contributions were made by the Indian Legislature and we also recognise that whatever the circumstances connected with the composition of India's sterling debt the position of the British investor is not affected. We have not referred to this subject at any of the Round Table Conferences, and we refer to it now with great reluctance for the last thing we desire to do is to exploit for political purposes a gift made with the full assent of Indian representatives. Nevertheless when attempts have been made in this country to exploit the nervousness of the British investor for purposes of political propaganda, it is necessary to bring to the notice of the British public and of Parliament the fact that, if India had utilised the money which she contributed towards the expenditure on the Great War to wipe out her sterling obligations, the sterling debt to-day would have been very small. We must appeal to the British sense of fair play to see that the financial sacrifices which India made in order to assist Great Britain in her hour of need do not result in the imposition of severe

restrictions on the powers of the Legislature and the responsible Finance Minister in the administration of the country. Nothing would exasperate Indian public opinion more than the realisation of the fact that the enormous sacrifices that India had made have actually become the justification for impediments in the way of her constitutional advance.

9. We now proceed to indicate the modifications we suggest in the White Paper provisions.

(1) The fact that a large number of Indians have invested in Indian sterling securities in this country and that an appreciable portion of the Rupee debt is held by a large class of small investors who will be in a position to wield considerable political influence under the new constitution constitutes in our opinion an effective safeguard for the security of India's finances and of her credit abroad. A special responsibility in respect of financial stability and credit has, however, been imposed on the Governor-General. At the Third Round Table Conference attempts were made by several delegates to define this responsibility precisely and to restrict its application to specific cases such as borrowings to meet budgetary deficits. While considerable sympathy was expressed for this latter demand, the difficulty of drafting a clause that would cover all such cases has apparently been the principal consideration that has influenced His Majesty's Government in retaining the wording adopted in the White Paper. If the difficulties of drafting are found to be insuperable, we consider that the intentions of His Majesty's Government should be made clear by means of appropriate directions in the Instrument of Instructions.

(2) We recognise that if the Governor-General is to have a special responsibility in respect of financial stability and credit, it will be necessary for him to have a Financial Adviser on the spot, for it is better that he should be guided by an adviser who is stationed in India and is in touch with local conditions than that he should be obliged to invoke the aid of experts in England who have had no direct or recent contact with India. We have, therefore, no objection to the appointment of an adviser for a limited period under the new constitution, but it should be made clear either in the Statute or in the Instrument of Instructions, that the intention is that he should not interfere in any way in the ordinary day-to-day administration.

We are further of opinion that there are considerable advantages in designating him Adviser to the entire Government, i. e. the Governor-General as well as the Ministry. It is also very important that the Financial Adviser should be a financier approved by and acceptable to the Finance Minister. The success of the Financial Adviser will depend not merely on his experience and knowledge but upon his personality and his political outlook. His duties under the Constitution will be to advise the Governor-General when he considers that the financial stability or credit of the Federation is in danger; but a financial crisis is often due to the cumulative effect of a series of acts which individually are not of such consequence as to justify interference. It is obvious that the utility of a Financial Adviser would be gravely diminished if he could deal only with the consequences of a crisis and had no opportunities of preventing it by giving his expert advice at the appropriate moment. It is, therefore, of the utmost importance that the Minister, while retaining fully his right to reject the advice of

the Financial Adviser, be encouraged to consult him as frequently as possible. We request the Committee to take the psychological factors into consideration. If the Financial Adviser were chosen without the agreement of the Minister and did not enjoy his confidence, the latter would probably never consult him, however able and experienced he might be. The inevitable tendency would be for the Finance Minister to isolate himself, as far as constitutional provisions would permit, from the Financial Adviser, and the main object for which the appointment is considered necessary would be frustrated. On the other hand, if the selection were made with the approval of the Minister, he would probably get into the habit of consulting him and of accepting his advice without any prejudice to his constitutional right to reject it in cases in which he considered it necessary to do so.

(3) We have recognised the importance on financial grounds of the constitution of a Reserve Bank. We do not propose to offer any detailed observations on a subject which has been discussed by a special committee here and is now before the Indian Legislative Assembly. We wish, however, to emphasize here that it is of the utmost importance that the principal officers of the Bank, namely, the Governor and Deputy Governor, should not be under the influence either of Whitehall or of the City. In the course of the discussion which some of the Delegates to the Round Table Conference had last year with representatives of the City, very great emphasis was laid on the importance of establishing a Bank which had the confidence of the Indian public. Nothing would shake public confidence in India more than the suspicion that the Governor and the Deputy

Governor were acting under the influence of Whitehall or the City.

(4) The legislation in respect of currency and coinage and of the Reserve Bank should not, as proposed in paragraph 119 of the White Paper, be subject to the previous assent of the Governor-General. (Two Members dissent from this proposal.)

These provisions and the establishment of a Reserve Bank, independent of the Federal Executive, would in effect mean that the Finance Minister would not, in respect of currency and exchange policy, be responsible to the Indian Legislature. We draw the attention of the Committee to a statement made by the Secretary of State on December 24th, 1932, at a meeting of the Round Table Conference, that "the British Government have fully accepted the fact that there can be no effective transfer of responsibility unless there is an effective transfer of financial responsibility."* We do not see how Finance can be regarded as a transferred subject unless and until the Finance Minister is also responsible for the currency and exchange policy of the country and is in a position to determine that policy solely in the interests of India. Indeed, as we have shown in the second part of the Memorandum, so long as the currency and exchange policy of the country is reserved, it would be difficult for the Ministers in charge of Industry and Agriculture to accept full responsibility for the development of these Departments. It is unnecessary, especially at present, to emphasize the fact that the prosperity of industry and agriculture is very closely connected with the level of commodity prices, which, of course, is dependent on the currency and exchange policy of the country.

* Page 79, Round Table Conference Reports, Third Series.

(5) Future Indian sterling loans should be raised on behalf of the Government of India by the High Commissioner or some other suitable agency. The Secretary of State in his evidence before the Committee recognised the justification for a change in the present procedure. The question has a political aspect, since the necessity for securing the position of the British investor is one of the principal justifications for the financial safeguards. We realise that any change of procedure might result in a higher rate of interest for Indian loans, but this possibility must be faced by India at some time or other.

Fiscal Convention.

10. Under the White Paper provisions, Commerce will be a transferred subject, in charge of a responsible Minister, and fiscal policy will be determined solely by the Ministry and the Legislature. Since the special responsibilities of the Governor-General do not include fiscal policy or the other matters at present dealt with under the Fiscal Convention, the Governor-General will, in regard to such matters, be guided by the advice of his responsible Minister. We have no modifications to suggest as regards the provisions of the White Paper, but in view of statements that have been made in this country, we wish to draw the attention of the Committee to the following passage in the Report of the Joint Select Committee of 1919 :

“ Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada, and South Africa.”

The further declaration based on this passage made by Mr. Montague in 1921 in reply to a deputation from Lancashire cannot be too often quoted. He said :

“ After that Report by an authoritative Committee of both Houses and Lord Curzon’s promise in the House of Lords, it was absolutely impossible for me to interfere with the right which I believe was wisely given and which I am determined to maintain to give to the Government of India the right to consider the interests of India first, just as we, without any complaint from any other parts of the Empire, and the other parts of the Empire without any complaint from us, have always chosen the tariff arrangements which they think best fitted for their needs, thinking of their own citizens first.”

The confidence inspired by this declaration of policy and the policy of discriminating protection (which, it may be noted, is a far more diluted form of protection than the system in force in the Dominions) have led to the remarkable industrial development in India during the last decade, to which reference was made by the witnesses who appeared on behalf of the Manchester Chamber of Commerce. Any departure from this policy would cause dissatisfaction of the very gravest character in India and the consequences might be most disastrous even from the point of view of British commercial interests.

11. At a very late stage of our deliberations a suggestion has been made that while complete freedom in the matter of tariff arrangements should be definitely recognised by Statute, there should be a clause prohibiting discriminatory tariffs penalising British imports as compared with those of other countries, imposed with the object of exercising political pressure on Great Britain. It was explained that such a clause would not prevent discrimination against Great Britain if it was necessary in the economic interests of India, nor would it restrict in any way the right of India to conclude trade agreements with foreign countries in the interests of Indian commerce and industry. For instance, it was made clear that a reciprocal

agreement with Japan as regards the purchase of Indian cotton by Japan and the purchase of Japanese cotton goods by India would not come within the scope of this clause even if it involved a certain measure of discrimination against Great Britain.

12. The possibility of the tariff being utilised as an instrument of political pressure is remote. Our fear is that misunderstandings are bound to arise if the Governor or the Governor-General is the authority that will decide whether there is a political motive underlying the economic policy of the Ministers. If British politicians have been alarmed by some of the statements of the Congress and some of the implications of Congress policy, we venture to point out that Indian commercial interests have also been very disturbed by statements in a section of the British press that in the economic interests of Great Britain there should be no relaxation of Parliamentary control.

13. We would like in this connection to refer briefly to the tariff developments in the past and to their psychological reactions on Indian public opinion. The efforts of Lancashire to interfere with the tariff arrangements of India in the latter half of the last century, the abolition of the whole of the import duties in 1881 after a memorial by the Manchester Chamber of Commerce and a prolonged controversy between the Secretary of State and the Government of India, and finally the imposition of excise duties on cotton goods in 1896, again under pressure from Lancashire, had had very serious political repercussions on Indian public opinion, which are familiar to all who are acquainted with the fiscal and political history of India during the last 50 years. The excise duty on cotton goods became a grave political issue and the demand for its abolition continued long after the levy of heavy import duties on cotton goods. The grant

of freedom in respect of tariff arrangements under the Fiscal Convention of 1919 and the abolition of the excise duties in 1925 have had a remarkable effect on the fiscal outlook of India and in particular on its attitude on the question of Imperial preference. In 1926 India had refused to accept the full policy of Imperial preference; but a Bill for the grant of preference to British steel was carried through the Legislature in 1927 though by a small majority. The Ottawa agreement was ratified by the Legislature last year by a very large majority, and the Indian tariff now provides for preference for several classes of British goods. The reason for the change has been explained in the evidence of Sir Charles Innes, who was a member of the Viceroy's Council in charge of Commerce for five years and is undoubtedly one of the greatest authorities on Indian commercial matters. The following is his reply to Mr. Davidson's question No. 5007:

"I think it was mainly due to the fact that the Indians realised that it was for themselves to decide whether or not they would ratify that agreement. In the old days, before we introduced this principle of discriminating protection, every Indian thought that Britain kept India a free-trade country in the interest of her own trade. When the Fiscal Convention was introduced, and when we passed a resolution in favour of discriminating protection, and the first Steel Bill was passed, we at once transferred all that from the political sphere to the economical sphere, and in recent years in the Indian Legislative Assembly more and more we have been creating a strong Free-Trade party. It was getting more and more difficult for me to pass Protection Bills. I think that is all to the good; it shows the value of responsibility and I am perfectly sure that if we had not taken that action, you would have never got the Indian to agree to preference on British steel, or to the Ottawa agreement, and it seems to me a very good example of the stimulating effect of responsibility."

14. In these circumstances we request the Committee definitely to recognise by Statute India's freedom to regulate her fiscal policy without any reservations or qualifications. Such a course, we are convinced, would be fully justified by the results. In our opinion, so far as the fiscal relations between Great Britain and India are concerned, the question is not whether there will be any tariff discrimination against Great Britain but whether and to what extent *preference* will be given to Great Britain. A constitutional provision which might never have to be applied in practice but which would tend to offend public opinion in India might seriously prejudice the development of any preferential arrangement as regards Great Britain. India desires to shake hands with Great Britain in token of friendship based on a recognition of equality. A proposal that she should be hand-cuffed before she is allowed to shake hands, lest she be tempted to strike, is hardly the most expedient method of beginning a new era of cordiality and mutual understanding.

Commercial Discrimination.

15. The question of Commercial Discrimination has been the subject of prolonged negotiations and discussions for many years. Throughout these discussions and negotiations, the expression "Commercial Discrimination" was used in a very limited sense. It had reference solely to internal restrictions on trade and commerce. It was never intended to include tariff arrangements and the other matters dealt with under the Fiscal Convention. In fact, the only reference to the subject in the reports of the first Round Table Conference is found in the Report of the Minorities Sub-Committee.

16. On the question of principle there has always been a substantial measure of agreement. The All-Parties Conference

which met in India in 1928 and which was presided over by that eminent leader of the Congress, the late Pandit Motilal Nehru, stated in their report (commonly known as the Nehru Report) that "It is inconceivable that there can be any discriminatory legislation against any community doing business lawfully in India." The statement was endorsed in even more emphatic terms by Mr. Gandhi at the Second Round Table Conference. It has been accepted on the one hand that there shall be no unfair discrimination against British companies operating in India, while it is equally agreed on the other side that the Indian Government should have all the powers which Great Britain and the Dominions possess to develop indigenous industries by all legitimate methods. The difficulty throughout has been to define by legislation the expression "legitimate" and "unfair" and also the term "indigenous".

17. The question was considered by the authors of the Montagu-Chelmsford Report and also by the Simon Commission. The former in paragraph 344 of their report made an appeal to Europeans "to be content to rest like other industries on the new foundation of government in the wishes of the people" and to Indians "to abstain from advocating differential treatment aimed not so much at promoting Indian as at injuring British commerce". The Simon Commission considered that it was not feasible to prevent discriminatory legislation by attempting to define it in a constitutional instrument. Any such provision would, in their opinion, have to be drawn so widely as to be little more than a statement of abstract principle, affording no precise guidance to courts which would be asked to decide whether the action complained of was discriminatory. The Parliamentary draftsmen, however, considered otherwise, and attempts have been made in the White Paper in Proposals 122,

123 and 124 to deal with this highly complicated question. The view of the Simon Commission has, however, been justified, for the draft has already been found to be unsatisfactory and a complete redraft has been suggested in the memorandum circulated by Secretary of State. We must point out that if the clauses are drawn so widely as to prevent legitimate discrimination, the Government would be driven to State socialism as the only method by which the provisions of the Act could be circumvented.

18. Before we deal with this revised draft, we must state very frankly the apprehensions of Indian commercial and industrial interests in this matter. A protective tariff, as regards which complete freedom has been given and is to be continued under the White Paper scheme, is the most common perhaps the most effective method by which indigenous industries can be fostered and developed. The clauses relating to commercial discrimination also recognise that in the case of bounties, subsidies, or other payments of grants from public funds, discrimination even in the case of British companies operating in India would be legitimate under certain circumstances. These, however, do not exhaust the methods by which countries, including Great Britain, have attempted to develop indigenous industries or counteract attempts made by foreign companies to frustrate the objects of a protective tariff. The particular difficulty which is disturbing the minds of Indian commercial men is the possibility of powerful foreign trusts establishing themselves in India and making it impossible for Indian industries to develop, not necessarily by methods which in ordinary commercial practice would be regarded as unfair, but by their superior resources, powers of organisation, political influence, etc. It is immaterial from the Indian point of view whether

these trusts are British or international, nor do we see how legislation can differentiate between a foreign company which is registered in Great Britain and a British company.

The question has already arisen in the case of the match industry. As a result of the heavy revenue imposed on matches in 1922, a big indigenous industry has developed, and the Swedish Match Company has also established several factories in India. When the question whether the revenue duty should be definitely recognised as a protective duty was considered by the Tariff Board in 1928 one of the points which it examined was whether the Government should introduce any special measures to curtail the activities of the Swedish Match Company in the interests of the Indian companies. The Board, which was presided over by an Indian and had a majority of Indians, recommended that a no-discriminatory action was necessary, though the situation required careful watching; but it is interesting to note that the Tariff Board did not consider itself precluded from considering the question of discrimination and examined several possible methods, such as the establishment of a quasi-monopoly under Government control, State control of sales and prices, and a differential excise duty.*

19. In dealing with the revised draft, it would probably be better for us to state clearly on what lines the draft should in our opinion be modified rather than to suggest specific modifications of the draft. We summarise below in the form of propositions our views on this subject :

(a) We have no objection to the general declaration as to British subjects in regard to the holding of public offices or to

* Appendix A, Report of the Indian Tariff Board regarding grant of protection to the Match industry, 1928.

the practising of any profession, trade or calling. We would, however, very strongly object to any draft which makes it impossible for India to discriminate against subjects of the Dominions and Colonies which impose disabilities on Indian subjects. We do not wish to elaborate the point further, for His Majesty's Government are aware of the strength and intensity of Indian feeling on this question.

(b) Proposal 124 of the White paper and the revised draft fully recognise that in respect of bounties, subsidies, or other payments from public funds, discrimination would be legitimate. We would, however, like to point out that the Report of the External Capital Committee of 1924, on which the draft is based, is not the last word on this subject. The conditions imposed in accordance with the recommendations of this Committee have so far been found to be satisfactory, but it is not improbable that altered circumstances will necessitate other conditions or modifications of these conditions with a view to the encouragement of Indian trade or industry. The clause should not, therefore, restrict the right of the Government and the Legislature to impose further conditions, if necessary.

(c) The clauses relating to the special provisions for persons who are British subjects domiciled in the United Kingdom are based on the principle of reciprocity. In the course of the discussion we have referred to several methods by which Western countries have attempted to foster and develop national industries and which might in certain circumstances be held to contravene one or other of these provisions. We have two alternative proposals to make.

20. We strongly hold the view that a friendly settlement by negotiation is by far the most appropriate and satisfactory

method of dealing with this complicated matter. Any statutory safeguards given to British commercial interests would irritate public opinion and would operate as impediments to a friendly settlement. We, therefore, earnestly suggest the omission of clause 123 of the White Paper and the corresponding clauses in the re-draft. If any legislation which subjects to unfair discrimination any class of His Majesty's subjects protected by this clause is passed by the Federal Legislature, the Governor-General has already the right under clause 39 to reserve the Bill for the signification of His Majesty's pleasure. Any such action on the part of the Governor-General would itself put the rival parties in the proper frame of mind for a satisfactory agreement. The fear on the one hand of the exercise of the ultimate veto and on the other the possibility of assent in view of the strongly expressed public opinion in the matter would probably induce the parties to arrive at a satisfactory compromise. (Sir Henry Gidney dissents from this proposal.)

21. A less satisfactory alternative (though in our opinion much better than the White Paper proposals) would be the inclusion of legislation, which discriminates against any class of His Majesty's subjects in India, in the list of legislation which, under Proposal 119, requires the previous assent of the Governor-General given at his discretion. It should, however, be made very clear by means of a provision in the Statute itself or by means of appropriate directions in the Instrument of Instructions that the assent should not be refused unless the object of the legislation is "not so much to promote Indian commerce as to injure British commerce".

We consider that a clause drafted generally on these lines would be preferable though it is open to the objection referred to in paragraph 12.

In the first place a provision of this sort would be more elastic than the White Paper provision, for the Governor-General or the Governor as the case may be would be in a position to decide with reference to the merits of each individual case whether the measure was a legitimate attempt, intended to promote Indian industries, or whether its aim was primarily to injure British commerce in India.

In the second place it would avoid a reference to the Courts to which there are obvious objections, some of which have been given by the Simon Commission in paragraph 156, Volume II of their Report. We do not think that the Courts should be placed in a position in which they might have to give a decision contrary to strongly expressed public opinion in the Legislature. Indeed, any attempt to test the legality of popular legislation by a foreign company would at once raise political issues and would tend to mobilise the forces of public opinion against the company concerned. European companies have during the last four years realised how extremely effective a boycott, supported by public opinion, can be in India.

In the third place, a reference to the Federal Court with the right of appeal would mean considerable uncertainty and delay, which might in certain circumstances frustrate the very object of the legislation. Moreover, if the legality of the legislation is challenged, not immediately but some years after the passing of the Act, a decision of the Federal Court declaring the legislation *ultra vires* on the ground of discrimination would inflict heavy losses on the companies, which in the meanwhile had invested capital and commenced operations.

22. We see grave practical objections to any constitutional provisions against administrative discrimination. Indian

Ministers in charge of Transferred Departments in the Provinces have exercised unrestricted powers in respect of contracts and the purchase of stores for the last twelve years and there has been no complaint from any British companies that the powers have been abused. Apart from the fact that any provision in the new constitution which would enable the Governor-General or the Government to interfere with the discretion of the Indian Ministers in these matters would be very strongly resented as an encroachment on the rights already granted by convention, we are convinced that administrative interference would, in practice, seriously affect the relations between the Governor-General or the Governor and his Ministers. In practice no such discrimination against British companies in India is likely to take place, especially as the vast majority of the shareholders in many of the so-called European companies in India such as the jute companies of Bengal, are Indians. The Indian shareholders, like the shareholders of any other country do not concern themselves very much with political or racial issues so long as they get their dividends regularly. Although the shareholders in the jute companies have been predominantly Indian, the management and direction has, as is well-known, been almost exclusively European.

Railway Board.

23. The question of the constitution of a statutory Railway Board was never discussed at the Round Table Conferences but was considered by the Consultative Committee of the Round Table Conference in India. This Committee, while recognising the advantages of the establishment by Statute of a Railway Board for the administration of the Indian railway system on commercial lines, considered that the Constitution should merely contain a clause requiring the establishment of such a body and

that the constitution, functions and powers of the Board should be determined by an Act of the Federal Legislature. We agree with this recommendation.

Federal Legislature.

24. We generally accept the proposals in the White Paper both as regards the composition of Lower Federal Chamber and as regards the method of election to it.* The representatives of some of the bigger Indian States have urged the desirability of smaller Legislatures and also the adoption of an indirect system of election. The arguments that have been advanced against direct election are familiar to those who have taken part in the constitutional discussions of the last five years, but since the matter is of such vital interest, we propose to deal with the principal objections which are as summarised below.

(1) Direct election, even with Legislatures of the size contemplated by the White Paper scheme, would necessitate extensive constituencies, and with the comparatively undeveloped state of communications in India it would be impossible for the individual member to maintain that personal contact with the electorate which is the essence of the democratic system.

(2) The vast mass of the electors who are to be enfranchised under the White Paper scheme are illiterate, and in the absence of a well-organised party or press, it would be difficult for the illiterate voter to understand the

*Some members of the Delegation would much prefer smaller legislatures though they are in favour of direct election to the Lower Chamber. One member considers that in view of the special circumstances of his community at present, indirect election would be preferable.

complicated and in some cases highly technical issues which the Federal Government would deal with under the new constitution.

(3) India has not sufficient men with the necessary qualifications to fill Provincial and Central Legislatures of the size provided for in the White Paper scheme, and a large Federal Legislature is unnecessary for the purposes of the Federal scheme, since the functions of the Federal Government under this scheme will be very restricted.

25. The first two arguments have been answered in the following passage from the Government of India's despatch on a similar proposal made by the Statutory Commission :

"First, the central elector has exercised the franchise with increasing readiness and at least as freely as the elector to provincial councils. A great deal of the business of the central legislature is as intimate to the elector, and is as fully within the scope of his understanding as the business of the provincial councils. We need cite only such matters as the Sarda Act, the income-tax, the salt tax, the railway administration, and postal rates. Even more abstruse matters, such as the exchange ratio and tariffs, interest large sections of the electorate. Second, the electoral methods natural to the social structure of India may be held to some extent to replace personal contact between candidate and voter, a contact which adult suffrage and party organizations make increasingly difficult in western countries. The Indian electorate is held together by agrarian, commercial, professional and caste relations. It is through these relations that a candidate approaches the elector, and in this way political opinion is the result partly of individual judgment, but to a greater extent than elsewhere of group movements. These relations and groups provide in India a means of indirect contact between voter and member, reducing the obstacles which physical conditions entail. Moreover, we are impressed by the further

consideration that ten years ago Parliament of its own motion set up for the first time a directly elected Assembly, representative of the whole of India. That Assembly, in part perhaps because it is directly elected, has appealed to the sentiment of India, and sown the seeds, as yet only quickening, of real representation. Accordingly, unless new considerations of greater importance have to be taken into account, we feel reluctant as yet to condemn an experiment undertaken so recently in a country awakening to political consciousness."

Apart from the other weighty arguments which have been urged by others in favour of a system of direct election, we wish to draw the attention of the Committee to the possibility, almost amounting to certainty, of Provincial elections being fought on All-India issues if the Federal Legislatures were indirectly elected by the Provincial Councils. The result would be that none of the advantages claimed for the indirect system could be secured since All-India issues would be voted upon by an electorate of 35 millions instead of by the more restricted electorate recommended by the Lothian Committee for the Federal Assembly.

26. As regards adequacy of qualified men to fill the legislatures, whatever the conditions in the Indian States no one who is in touch with conditions in British India doubts that, except perhaps in the case of the depressed classes, men with the necessary qualifications will not be available. Our fear, on the other hand, is that the number of candidates will be embarrassingly large.

27. We consider that there should be a definite provision regulating the procedure for the participation by representatives of Indian States in matters of exclusively British India interest.

The following formula indicates the procedure which in our opinion should be followed :—

- (1) In a division on a matter concerning solely a British Indian subject, the representatives of the Indian States will not be entitled to vote.
- (2) Whether a matter relates solely to a British Indian subject or not will be left to the decision of the Speaker of the House, which will be final.
- (3) If a substantive vote of 'No Confidence' is proposed in the House on a matter relating solely to a British Indian subject, the representatives of the Indian States will be entitled to vote since the decision on such a question will vitally affect the position of a Ministry formed on the basis of collective responsibility.
- (4) There should be a definite provision in the Constitution regarding the procedure on this important point, since the issues raised affect the status and rights of the representatives of the Indian States on a question of voting in the Legislature.
- (5) If the Ministry is defeated on a vote of the Legislature on a subject of exclusively British Indian interest it will be for the ministry to decide whether it should continue in office. It will not necessarily resign as a result of the vote.

Provincial Constitutions.

28. We approve generally the scheme of Provincial responsibility provided for in the White Paper proposals,

and our observations and suggestions are confined to matters of detail.

- (1) We are very strongly opposed to the proposal that Law and Order or any section of the Police Department should be reserved. In the first place, the isolation of this Department would result in the intensification of the hostility to this Department which would be increasingly recognised as the agency of an alien Government. In the second place, the maintenance of Law and Order is very closely connected with the administration of the other departments since the Police are the agency through which in the last resort the policy of the other departments is enforced. For instance, the periodical Moplah outbreaks in the south, the tenancy agitation in the U. P., and the Gurudwara agitation in the Punjab were due to agrarian or religious movements which necessitated action in the Transferred Departments. To give another instance, the enforcement of prohibition, which has the sympathy of a large section of the population in India, is, as has been demonstrated by the American experiment, primarily a question of Law and Order.
- (2) Any special provision for dealing with the terrorist activities in Bengal and elsewhere, which would involve a restriction of ministerial responsibility in respect of Law and Order, would, apart from its political reactions, defeat the object in view. It is well-known that the terrorist activities have been aggravated by social and even religious influences, unemployment among the University graduates, and by economic conditions of the Province in general. Absence of any strongly expressed public opinion against the movement has also been one of the principal factors that has contributed to its growth. Only an Indian Minister who is very closely in touch with the classes of the population from which the terrorists are drawn can mobilise the forces of public opinion against the movement and deal effectively with the social and the other factors that have influenced its growth. (Sir Henry Gidney dissents.)

- (3) There is nothing in the White Paper scheme which could prevent the Governor-General from carrying out the suggestion that, while Law and Order would be completely transferred in the Provinces, there should be a small organisation directly under the Governor-General which would, in co-operation with the provincial authorities, supply him with information relating to movements of a subversive character which extend over more than one Province and which raise questions relating to the defence and security of the country. The military section of the C. I. D. does, as a matter of fact, discharge this function.
- (4) The Instrument of Instructions should definitely contain a direction to the Governors that the collective responsibility of the Cabinet with a Prime Minister should be introduced from the very inception of the provincial constitutions.
- (5) *Special responsibilities of the Governor.**

While we recognise that certain special responsibilities would have to be imposed on the Governor in view of the demands of the Minorities and other circumstances, we consider that the following modifications should be made in Proposal 70 of the White Paper :

- (i) In respect of the prevention of grave menace to the peace and tranquility of the Province, the Governor's action should be confined to the Department of Law and Order. In other words, these special powers should not be exercised so as to interfere with the administration of the

* Sir Abdur Rahim is of the opinion that the special responsibilities and special powers of the Governor as proposed in the White Paper will make it extremely difficult for responsible Governments in the Provinces to function and considers that the provision made to meet cases of breakdown of the Constitution should suffice to meet all serious contingencies. He is convinced that if the rights and interests of the Minorities and the Services are properly defined in the Constitution Act itself that will afford more effective protection to them. The Governor should, however, be responsible for carrying out the orders of the Federal Government and protecting the rights of Indian States.

other Departments. It is suggested that the special responsibilities should be restricted to cases in which the menace arises from subversive movements or the activities of a person or persons tending to crimes of violence.

(ii) In the case of Minorities, the expression "Legitimate interests" should be more clearly defined and it should be made clear that the Minorities referred to are the racial and religious minorities which by usage are generally included in this expression.

(iii) In the case of the Services, the expression "legitimate interests" should be clearly defined. The Governor's special responsibility should be restricted to the rights and privileges guaranteed by the Constitution.

(The other special responsibilities of the Governor will be dealt with in the appropriate sections of this memorandum to which they relate.)

(6) The power of issuing ordinances should be given only to the Governor-General as at present. The Governor should have no difficulty in getting ordinances issued even in emergencies as at present.

(Some members of the Delegation dissent from this proposal and support the White Paper proposal.)

(7) We are opposed to the creation of second Chambers in Bengal, Bihar and the U. P. The opinion of the present Legislative Councils in these Provinces is not conclusive in the matter.

If, however, in spite of our opinion a second Chamber with a nominated element is to be constituted in these Provinces, we consider that it should be definitely recognised that persons appointed Ministers must be or become within a stated period elected members of one of the two Chambers.

(One member of the Delegation considers that in the case of the United Provinces a Second Chamber is necessary, while another would like to have it in all the three Provinces.)

- (8) In respect of the Governor's Act, referred to in Proposals 92 and 93 of the White Paper, most of us would prefer that, if any legislation were required for the discharge of the special responsibilities imposed on the Governor, he should take the entire responsibility for such legislation and should not be required to attempt to secure the assent of the Legislature.

Federal Finance.

29. (1) The allocation of the sources of revenue between the Federation and the units which follows with slight modifications the recommendations of the Peel Committee of the Third Round Table Conference, is the result of a compromise and we do not, therefore, suggest any change.

(2) In regard to the division of income-tax, however, we observe that the contentions of the British Indian members of the Peel Committee have not been accepted. These members, realising the importance of strengthening the financial position of the Federal Government by the permanent allocation of a portion of the income-tax, agreed, as a compromise, to the suggestion that the proceeds of the income-tax which are not derived solely from residents in British India should be allotted to the Federal Government, in addition to the Corporation Tax which would be definitely classed as a Federal source of revenue. According to the figures placed before the Peel Committee, the amount of income-tax so allotted was roughly about $2\frac{1}{2}$ to 3 crores of rupees, or only about 20 per cent. of the balance remaining after the allocation of the Corporation Tax to the Federal Government.

Under the White Paper scheme, the portion of the income-tax to be assigned to the Federation has been fixed at not less than 25 per cent. and not more than 50 per cent. of the net

proceeds, the exact percentage to be fixed by a committee just before the inauguration of the Federation.

Since the Percy Committee have definitely found that the pre-Federation debt of India is covered by the assets to be transferred to the Federal Government, there is no justification in theory for the assignment to the Federal Government of any portion of the personal income-tax paid by the residents of the Provinces, since no corresponding tax on incomes will be paid by the States. Any such proposal would have serious political repercussions, for an economic issue of this sort might determine the line of party cleavage in the Federal Legislature. It would be very deplorable if at the very inception of the new constitution the representatives of British India and those of the Indian states, were ranged in opposite camps in the Federal Legislature.

(3) In Proposal 137, it is stated that the Federal Legislature will be empowered to assign the salt duty, the Federal excises and the export duties "in accordance with such schemes of distribution as it may determine". It should be made clear that the system of distribution should be on the basis of population or according to some other method that would not render possible the exercise of administrative control over the units of the Federation. In other words, the scheme of distribution should not be interpreted as including grants-in-aid as an instrument of control.

(4) There should be a provision in the Constitution Act for the appointment by the Governor-General of a committee (say three years after the Federation has begun to function) to institute an inquiry into the financial conditions of the Federation and of the British Indian Provinces and to make

recommendations for the allocation of the income-tax to the Provincial units according to a time-table.

Public Services.*

30. No part of the White Paper proposals has caused more dissatisfaction in India than the provisions relating to the Public Services. Before we indicate our views on these provisions, we may draw the attention of the Committee to certain features of the duties and conditions of service, particularly with reference to the key Service, namely, the Indian Civil Service. The Covenant or contract signed by a member of the Indian Civil Service imposes many obligations on him but confers hardly any rights or privileges, which have all been granted either by Statute or by rules, such as the Devolution Rules and the Classification Rules. The salaries and other conditions of service have been varied from time to time and are still subject to variation by the Secretary of State in Council. The duties and functions of this Service have also undergone considerable changes. Originally the Collector and Magistrate was a fiscal officer, a revenue and criminal judge, the local head of the police, jails, education, municipal and sanitary departments. Owing to the increase of specialisation by the creation of new departments transfer of certain departments to the direct control of the Imperial Government, de-officialisation of local authorities and other administrative changes due to the introduction of the Montagu-Chelmsford reforms, his duties have been considerably restricted, but he continues to be the administrative head of the district, whose principal functions, apart from the collection of revenue, are the maintenance of law and order and the co-ordination of the work of the different departments of Government in

* Wherever the word 'Indian' is used, it includes 'Statutory Indians'

the district. Many of the higher administrative appointments and almost all the higher secretariat appointments in the Provincial Governments and in the Government of India are reserved for the members of this Service under the present Constitution.

31. According to the White Paper scheme, the Secretary of State will continue to recruit on the present basis for the two key Services, namely, the Indian Civil Service and the Indian Police. There is to be a statutory inquiry after a period of five years after which Parliament will determine on what basis future recruitment should be made.

Very strong objection has been taken in India to this part of the scheme which is, it may be noted, not in accordance with the recommendations of the Services Sub-Committee of the Round Table Conference. We consider that, after the passing of the Constitution Act, recruitment for the Central Services should be by the Federal Government and for the Provincial Services, including the Indian Civil Service and the Indian Police, should be by the Provincial Governments, who should have full power to determine the pay and other conditions of service for future recruits and also the proportion of Europeans that should be recruited.* We give below some statistics, necessarily based on certain assumptions, as to the number of European officers that would remain in service even if recruitment were completely stopped in 1935.

	<i>Indian Civil Service.</i>	<i>Indian Police.</i>
(1) Total sanctioned strength	1,225	683
(2) Present strength (on 1-1-32. latest figures available)	1,308	680

*Sir Henry Gidney dissents from this proposal.

	<i>Indian Civil Service.</i>	<i>Indian Police.</i>
(3) Number of European officers at present. (1-1-32).	843	528
(4) Number of European officers if recruitment were stopped in 1935.		
(a) in 1935	762	498
(b) in 1940	632	443
(c) in 1945	502	388

There would thus be a very substantial European element in the two key Services for another generation even if European recruitment were completely stopped after the passing of the Act. The proposal that a statutory inquiry should be instituted after a period of five years is open to very strong objection. The problem of European recruitment cannot be considered in isolation. It is very closely connected with standards of administration, the state of communal feeling and other factors which are of a very controversial nature and raise political issues. Any such inquiry even of an informal nature would, therefore, have a grave disturbing effect on the political atmosphere and would seriously affect the relations between the Services and the Legislatures.

32. We now proceed to deal with the existing rights of officers appointed by the Secretary of State in Council which are to be guaranteed by Statute. We may say at once that we have no objection to the proposal, that the pensions, salaries, and the privileges and rights relating to dismissal or any other form of punishment or censure should, in the case of the existing members of the All-India Services, be fully safeguarded by the Constitution. We consider, however, that the Governor-

General in his discretion (*not* the Secretary of State in Council) should be the statutory authority for the protection of these rights and privileges. We realise that the Governor-General acting in his discretion is responsible to the Secretary of State and that constitutionally there would be very little change. Indian public opinion, however, attaches great importance to this formal change, which would be more in keeping with the rest of the Constitution.

To meet the reasonable demands made by the Services Association we are prepared to go further and agree to the following concessions.

(1) Although the members of the All-India Services, appointed after the commencement of the Government of India Act of 1919, are not entitled to the "existing and accruing rights or to compensation in lieu thereof" referred to in Section 96B (2) of the Government of India Act, we have no objection to the proposal that these rights should be extended to the officers appointed before the passing of the Act.

(2) We agree to the proposal that the right of retiring on proportionate pension should be extended to all European members of the All-India Services, appointed up to the passing of the Act.

33. Our objection is mainly to the rights and privileges which operate as restrictions on ministerial responsibility. We foresee many administrative developments. We, therefore, consider that there should be no restriction on the Ministers as regards postings, allocation of work, reorganisation of services and functions, and other matters which relate to the enforcement of policy and the efficiency of administration. The Ministers should also have the power of abolishing individual appointments now held by members of the All-India Services, subject

to right of compensation in certain cases on the lines indicated in the evidence of the Secretary of State.

34. We see no justification for the proposal to exempt from income-tax the pensions of retired officers of the All-India Services. Any such exemption would not benefit the retired officials resident in Great Britain or Northern Ireland who are subject to the British income-tax and who come within the scope of the double income-tax arrangements. Whether India levied an income-tax on pensions or not, they would continue to pay income-tax at the British rate. The only persons who would be protected are the retired officials who have settled in foreign countries in order to evade the British income-tax. We do not think that these officers deserve the sympathy of Parliament or that any special constitutional provision should be made for their benefit.

The question is not, in fact, connected with service rights or privileges, for retired British officials in India are subject to Indian income-tax. The matter is one for adjustment between the British Treasury and the Indian Government, if the latter decided to remove the present exemption.

It is possible that, owing to the fact that under the Indian income-tax provisions no exemptions are given for families, in a few cases the British rate might be lower than the Indian rate of income-tax and that a few retired officials in Great Britain and Northern Ireland would, therefore, become subject to a higher rate of tax. To avoid any hardship in this comparatively small number of cases, we would have no objection to any arrangements under which retired officials in Great Britain and Northern Ireland would continue to pay income-tax at the same rate as at present.

Appointment of Governors.

35. We strongly feel that the Governors of all the Provinces should under the new Constitution be selected from amongst public men in Great Britain and in India. Members of the permanent services in India, whether retired or on active service, should be excluded from these high appointments.

Automatic Growth of the Constitution.

36. The Simon Commission declared that one of the most important principles which should be borne in mind in considering the constitutional proposals was that the new Constitution should as far as possible contain within itself provision for its own development. As the Commission observed,

“It has been a characteristic of the evolution of responsible government in other parts of the British Empire that the details of the constitution have not been exhaustively defined in statutory language. On the contrary, the constitutions of the self-governing parts of the British Empire have developed as the result of natural growth and progress has depended not so much on changes made at intervals in the language of an Act of Parliament as on the development of conventions and on the terms of instructions issued from time to time to the Crown's representative.”

The Prime Minister's declaration which we have quoted in the introductory paragraph of this memorandum also states clearly that.

“In such statutory safeguards as may be made for meeting the needs of the transitional period, it will be a primary concern of His Majesty's Government to see that the reserved powers are so framed and exercised as not to prejudice the advance of India through the new constitution to full responsibility for her own government.”

We recognise, however, that Parliament cannot now, once for all, completely divest itself of its ultimate responsibility. We

make no detailed proposals as regards this subject, but indicate our views in the following propositions.

(a) The machinery to be provided in the new Act for the further constitutional advance of India should not involve an inquiry such as that conducted by the Simon Commission.

(b) The Constitution Act should definitely give the power of initiating proposals for constitutional changes to the Indian Legislatures. Such proposals should be required by Statute to be placed before Parliament in appropriate form through the Secretary of State.

(c) The constitutional procedure required for implementing these proposals should not, except in a few strictly limited cases, involve Parliamentary legislation.

(d) Provisions analogous to those of Section 19 A of the present Government of India Act should be inserted in the new Act for the purpose of facilitating the devolution of authority by Parliament to the Indian Legislatures.

Our proposals are intended to secure that the process of further transfer of responsibility shall be continuous. We recognise that during an initial period, which in our opinion should not exceed ten years, certain provisions of the new Constitution must remain unaltered. We cannot, however, too strongly impress upon the Committee that unless the new constitution brings the realisation of a Government fully responsible to the Legislature within sight and its provisions are so framed as to render possible further constitutional progress by the action of the Indian Legislatures, political activity outside the Legislatures will continue to absorb important sections of the politically-minded classes in India.

37. We have not in this memorandum attempted to exhaust all the issues which the White Paper proposals raise. On the points, which we have not specifically dealt with in the preceding paragraphs, we have expressed our opinion either individually or collectively in the course of the discussions or in the course of the cross-examination of the Secretary of State.

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LONDON,
 17th November, 1933.



APPENDICES.

Part II.

APPENDIX A.

1. In this section we propose to deal with the more important general criticisms directed against the basic structure of the White Paper scheme. We summarise below the principal points which have been raised in the evidence of critics such as Sir Michael O'Dwyer and Mr. Winston Churchill and in the newspaper campaign that has been carried on in this country for some time.

(a) The proposed All-India Federation is not an organic growth but an artificial creation.

(b) The Federal idea, which is an abstraction with no roots in the soil, was precipitately accepted by the Princes in their anxiety to safeguard their future which they thought was threatened by the 1929 declaration about Dominion Status.

(c) The Provinces must first become political entities before the necessary conditions for bringing a Federal constitution into being can arise.

(d) There has been a sensible deterioration in the services transferred to responsible Ministers under the Montagu-Chelmsford scheme. There should, therefore, be a further

Some of the Members of the Delegation were not able to examine the Appendices in their final form. It must not, therefore, be assumed that all the Delegates have endorsed every one of the statements in the Appendices though they all accept the conclusions in Part I, subject to the dissents noted in a few cases.

period of probation during which all the Provincial services, except Law and Order, should be transferred subject to certain restrictions and safeguards.

(e) The transfer of all services except Law and Order in the Provinces would give the Indian responsible Ministers complete control over the administration and development of all the Nation-Building services and there should be no Central responsibility until and unless this experiment has proved a success.

The evolution of the Federal Idea.

2. The use of the expression "All-India Federation" in connection with the constitutional discussions has inevitably suggested analogies which are based on the genesis of federations in other parts of the Empire, in Europe and America, and which, as explained in para 6 of the Introduction of the White Paper, are not applicable to the peculiar conditions under which the Indian Constitution has evolved since Great Britain accepted responsibility for the Government of India. The first three criticisms referred to in the last para have a special appeal to British politicians who are accustomed to a gradual and natural growth of political institutions and have an almost instinctive ~~and~~ abhorrence or novelty or idealism in constitutional schemes. To answer these criticisms effectively it would be necessary to describe in some detail the various stages, spread over a period of 70 years, in the evolution of the present administrative and constitutional machinery of India. The Montagu-Chelmsford Report and the Simon Commission Report have described the process at some length and we shall merely draw the attention of the Committee to the Principal features of India's constitu-

tional development which have a direct bearing on the criticisms referred to in the last paragraph.

3 The Principal features of the Montagu-Chelmsford reforms were : -

(a) The demarcation of the Central and Provincial spheres of administration and legislation by means of a classification of subjects.

(b) An almost complete separation of the sources of Provincial and Central revenues and the definite recognition of the financial autonomy of the Provinces.

(c) A preponderant non-official majority at the Centre as well as in the Provinces, based on a widely elected franchise.

(d) Responsibility of the Executive to the Legislature in respect of certain subjects in the Provinces.

The degree of Provincial autonomy (we use the expression here in the sense of freedom from control by the Central Authority) attained under this system has not been generally recognized. The Central Government does not now exercise any control over Provincial expenditure except in respect of certain matters affecting All-India Services. The Budgets of Provincial Governments are not submitted either to the Government of India or to the Secretary of State for approval before they are presented to the Provincial Legislatures ; and Provincial solvency is ensured only by the indirect method of control over the Provincial borrowings which, it may be noted, has been retained under the White Paper Scheme.

As regards the administration of the transferred subjects there has been, of course, little or no control by the Central

Government, but even in respect of the reserved subjects the Government of India have in accordance with the recommendations of the Joint Select Committee of 1919 refrained from interference except perhaps in the domain of Law and Order, where intervention has been more frequent owing to subversive movements extending over the whole of India. Mainly as a result of the financial independence conferred on the Provinces, Provincial autonomy has already become an accomplished fact, and Provincialism has found expression in the Central Legislature even through official representatives in a form which the Central Government have often found extremely embarrassing.

4. The subjects classified as Central under the Montagu-Chelmsford reforms are more or less the same as those assigned to a Federal Government in western countries. A Central Government which discharges all the functions of a Federal Government elsewhere is thus already in existence. Central Legislation does not, of course, apply to the Indian States but the range of matters in which the States have realized their solidarity with British India is very extensive, and, as we shall show presently, by means of treaties, conventions, and usage a very close association with the Indian States in the sphere of administration has already been established.

(a) **Defence and Foreign Affairs.**

As regards Defence, the Indian States are guaranteed security from without and they share with British India the obligation for common defence. The external affairs of the States are also entirely in the hands of the Government of India and Indian States are for international purposes in exactly the same position as British India. "An Indian State cannot hold diplomatic or other official intercourse with any foreign power. India, of course, is a member of the League of Nations and at Geneva is

represented as a unit by a delegation which in practice includes the ruler of an Indian State.”

(b) Railways.

The Government of India have complete control over the Indian Railways, one seventh of which run through Indian States. In respect of the stripes of territory over which the railways run in the Indian States, the Indian States have in most cases ceded civil as well as criminal jurisdiction. In addition to the British Indian railway system many States have their own railways which they themselves administer and control, but there is a considerable measure of control exercised by the Railway Board even in respect of these railways. They are subject to inspection by the Government of India and they generally follow the rules and regulations prescribed by the Railway Board.

(c) Currency.

Only eight out of 652 states have their own currency, but the currency and exchange policy has always been determined by the Government of India for the whole of India including the Indian States, for apart from other factors, economic necessities have forced the Indian states to adopt the currency policy of the Government of India.

(d) Posts and Telegraphs.

637 out of 652 Indian States have already accepted postal unity. i.e., they have agreed to the States being considered for postal purposes as part of British India and have accepted the administration of the Indian Posts and Telegraphs Department in respect of post offices within their boundaries. Out of the remaining 15, five have conventions under which they use British Indian Stamps over printed with the name of the State.

(e) Customs.

The States are not consulted in regard to tariff or customs policy, which under the Fiscal Convention is determined by the British Indian Central Legislature and the Governor General in Council, and customs duties levied by the Government of India have, of course, affected the whole of India including the inland States who form the vast majority of the Indian States. Indeed, the question of Maritime customs has been the subject of acute controversy during recent years and the Federal process has been carried so far that, in the opinion of the Butler Committee, the states have a real and substantial grievance which calls for remedy.

(f) Scientific Departments.

These subjects do not raise any controversial issues since the results of departmental research are available for British India as well as the Indian States. It may be noted, however, that in regard to one of the most important of these Departments, namely, the Council of Agricultural Research, the Indian States, have got definite representation though on a voluntary basis and some of them have actually made substantial contributions towards the expenditure of the Department.

(g) Taxes.

In regard to customs duties and the salt duty which contribute the bulk of the Central revenues of the present Government of India, the burden is shared by the residents of the Indian States as well as those of British India.

5. It will be evident from the preceding analysis that in the domain of administration the process of federalisation has gone very far indeed. In respect of almost all the subjects to be classed as federal under the new constitution, namely, Defence

Foreign Affairs, Currency, Exchange, Railways, Posts and Telegraphs etc., there is now a common policy applicable to British India as well as the Indian States, determined by the same authority, namely, the Governor-General in Council who, in the case of British India exercises his powers under the Government of India Act and in the case of Indian States, acts as the agent of the crown. There has, however, been no parallelism in the political development of the two halves of India. The Central Legislature which exercises a powerful influence on Governmental policy (and in the case of the Tariff actually determines the policy under the Fiscal Convention) contains an overwhelming majority of elected non-officials from British India but has no representatives of the Indian States. Administrative unity and the greater opportunities afforded to British India of influencing policy have necessarily given rise to a demand for a closer association of the Indian States with the Central Government. Many of the proposals that have been discussed in the past but which did not actually materialize are referred to in the following passage from the Montagu-Chelmsford Report.

“Lord Lytton’s proposal to constitute an Imperial Privy Council which should comprise some of the great princes resulted only in the ephemeral and purely honorific body known as the Councillor’s of the Empress. Lord Dufferin’s institution of Imperial Service Troops was of much greater value in giving actual and useful expression to the feeling of community of interests. Lord Curzon’s plan for a Council of Ruling Princes, and Lord Minto’s scheme first for an Imperial Advisory Council and then for an Imperial Council of Ruling Princes were suggestions only a little in advance of the time. The idea which attracted his two predecessors gained fresh life as a result of the

conferences which Lord Hardinge held with the Princes to consider questions of higher education in the States. Lord Hardinge made no secret of his desire to seek the collective opinion of the Princes as trusted colleagues whenever possible on matters affecting their Order; and in responding to His Excellency's invitation, Their Highnesses the Maharajas of Gwalior and Indore also laid stress upon the essential identity of interest between the two halves of India. Lord Chelmsford carried the system of the conferences further by utilising them for the purpose of discussing general questions affecting the States, as a whole; and His Highness the Gaekwar in welcoming the new development expressed the hope that what had by that time become an annual conference would develop into a permanent Council or Assembly of Princes. Moreover only last year the claims of the States to be heard in matters of Imperial concern were signally recognized by the deputation of His Highness the Maharaja of Bikaner to the meeting of the Imperial Conference and the War Cabinet."

As a result of the recommendation made in the Montagu-Chelmsford Report, the Chamber of Princes was set up in February 1921. It is not an executive body and its functions are mainly deliberative, consultative, and advisory. It advises the Viceroy on questions referred to him and it also proposes for his consideration other questions affecting the Indian States generally or which are of concern either to the Empire as a whole or to British India and the States in common.

The enormous increases in customs duties since the introduction of the reforms and establishment of the Fiscal Convention, which, as we noted, introduced a measure of responsibility in respect of Tariff Policy, have tended to intensify the demand for a closer association of the Indian States with the Government

of India. As the Butler Committee have pointed out, during Lord Reading's Viceroyalty a proposal was drawn up for the establishment of a *Zollverein*, an important feature of which the association of the representatives of the Indian States with the Indian Legislature in the determination of policy.

Individual Princes even before the publication of the Simon Commission Report made no secret of their desire to associate themselves with British India in a common federation. The following extract from a speech delivered by the Maharaja of Bikaner in 1929 is quoted in the Report itself :—

“ I look forward to the day when a United India will be enjoying Dominion Status under the ægis of the King-Emperor and the Princes and the States will be in the fullest enjoyment of what is their due—as a solid federal body in a position of absolute equality with the federal provinces of British India.”

6. The federal idea, i.e., the desire of the Princes for a closer association with British India for the determination of a common policy in respect of matters of common concern, is thus not of recent origin. It is the logical and inevitable result of forces which have been at work for over 70 years. If we rid our minds of notions and analogies suggested by the evolution of federations elsewhere, it will be clear that the White Paper scheme provides for little more than the formal association of the Indian States, in an administration which has already been almost completely federalized, but has been influenced predominantly by British India. The scheme is, therefore, not an artificial creation but is a natural development of the policy announced in the Declaration of 1917. It was definitely foreseen and provided for by the authors of the Montagu-Chelmsford Report, as is evident from the following extract :—

“The gradual concentration of the Governments of India upon such matters (Defence, Tariffs, Exchange, Railways, Posts and Telegraphs, etc.) will, therefore, make it easier for the States while retaining the autonomy which they cherish in internal matters to enter into closer association with the Central Government if they wish to do so. But though we have no hesitation in forecasting such a development as possible the last thing which we desire is to tend to force the pace. Influences are at work which need no artificial stimulation. All that we need or can do is to open the door to the natural developments of the future”.

7. From this brief survey of the administrative and political developments in India, two conclusions emerge:—

(a) As a result of the rigid demarcation of Central and Provincial subjects and in particular of the complete separation of the sources of the Provincial and Central revenues Provincial autonomy is for all practical purposes an accomplished fact.

(b) In respect of the subjects to be classed as Federal under the new constitution, the administration has not only been centralized so far as British India is concerned but has actually been federalized. In other words, in the domain of administration the federal process is almost complete.

These two features of the Indian constitutional and administrative machinery furnish an almost complete answer to the criticisms based on the analogy of the growth of western federations. The conditions under which a federal constitution is emerging in India are fundamentally different from those which existed in Australia, Canada, the United States of America, and Germany before they adopted a federal constitution. In all these countries there existed a number of com-

pletely independent states which had control over their defence, their fiscal policy and all the subjects which are normally classed as federal. The necessity for a common defence and the economic advantages of a customs union or a common tariff wall were the two powerful forces which drove the States into a federal union. The British Indian Provinces can never be in the position in which the States of the Western federations were, for no scheme that we know of has ever suggested the devolution of Central authority on a scale which would make the Indian Provinces responsible for their own defence or their customs policy.

The problem in the case of the other federations was to bring into existence a common administration and to devise a constitutional system suitable for the administration of certain subjects on a federal basis. The task of the constitutional experts in respect of India is not the creation of a federal administration but merely the adaptation of the present constitution to suit the necessities of an administration which has been almost completely federalized, but which is influenced by one section of India. With all respect we venture to point out that the argument urged by the Simon Commission and the critics who have objected to the constitution of a federation simultaneously with the creation of autonomous provinces has no relevance to the Indian problem which confronts Parliament now.

Deterioration in Services.

8. We must now deal with the charge that there has been a sensible deterioration in the services transferred to responsible Ministers under the Montagu-Chelmsford scheme. This assertion has been made by Mr. Churchill before the Committee and forms the basis of a great deal of the press propaganda in this

country. When Mr. Churchill was asked by Sir John Wardlaw Milne to justify the statement, Mr. Churchill refused to develop the subject further since "it would be painful to his Indian friends."

Though Mr. Churchill declined to give the source of his information or the facts on which he based his conclusions he explained that the deterioration he referred to was not in respect of personnel but in respect of the services rendered to the people. The only specific instances of deterioration that have been cited by the opponents of reforms in India are cases of embezzlement of money in municipalities, corruption in some of the Services, the supersession of two major Municipal Boards in Northern India, and the growth in the arrears of Municipal taxes in different Provinces. The principal Services transferred to ministerial control in the Provinces under the Montagu-Chelmsford reforms are:—

- (a) Communications.
- (b) Education.
- (c) Medical relief and Sanitation.
- (d) Agriculture and Industries.
- (e) Local Self-Government.

9. **Communications.** As regards communications, it is universally acknowledged that there has been a tremendous improvement in the condition of the roads. We do not claim that the improvement is solely or even mainly due to ministerial direction. The greater interest shown in rural communications as a result of the pressure exerted by rural representatives in the Provincial Councils, the requirements of the rapidly developing motor traffic, the constitution of an All-India Road Board,

financed by means of a tax on petrol, and other factors have all contributed to the very striking development in regard to transport facilities in India. Indeed, as Sir Charles Innes has pointed out in his evidence, the emergence of the motor bus which now reaches remote villages has been one of the important factors that have contributed to the growth of political consciousness in rural areas and to the magnitude of the mass movement that have been a feature of the political agitation during the last decade in India.

10. Education. In the following statement the number of educational institutions and the number of students attending them in 1921-22 and 1929-30 are given for comparative purposes.

Number of Institutions.

	1921-22	1929-30	Percentage increase.
(1) University Colleges ...	231	313	35.50
(2) Secondary Schools ...	8,987	13,152	46.34
(3) Primary Schools ...	160,072	204,094	27.50

Number of Students.

(1) Universities—			
(a) Boys...	58,066	94,025	61.93
(b) Girls...	1,529	3,141	105.43
(2) Secondary Schools—			
(a) Boys...	1,110,360	2,009,181	80.95
(b) Girls...	129,164	237,027	83.51
(3) Primary Schools—			
(a) Boys...	5,111,901	7,332,678	43.44
(b) Girls...	1,198,550	1,891,406	57.81

The Statement shows a very striking development in all classes of educational institutions. Particular attention may be drawn to the large number of students at the Universities. The figure for 1929-30 was nearly 100,000 and it has enormously increased since then. This figure is of particular interest with reference to Mr. Churchill's statement that "the proportion of the intelligentsia in India is probably smaller in proportion to the amount of the population than in any other community in the world—far smaller than the proportion in western countries." Though the proportion of literates in India is comparatively very small, the number of those who have received higher education is astonishingly large. We have not been able to get accurate statistics as regards university education in the principal countries of Europe, but we believe we are correct in stating that the number of students at the Universities in British India is not only absolutely but relatively to the population greater than in some countries in the west.

11. **Medical Relief and Sanitation.** The developments in these Departments, as the figures given below show, have been almost as striking as in the case of education. The organisation of an efficient and fairly widespread agency for the prevention of epidemics has been a feature of the sanitary administration of many Provinces.

Medical and Public Health.

Expenditure (in crores of rupees.)

	1921-22	1929-30	Percentage increase.
(1) Provincial.—			
(a) Medical	2.85	4.06	42.45
(b) Public health	1.41	2.62	85.81

(2) Municipalities.*—			
(a) Medical	... ..	67*	93 38·81
(b) Water supply, drainage and conservancy	... ..	4·28*	5·84 36·44
(3) Local Boards.—			
Hospitals and Sanitation		1·09	2·02 85·32

Number of Hospitals and Patients Treated.

	1920	1929	Percentage increase.
(1) Hospitals.—			
(a) State...	407	546	34·15
(b) Local Authorities	2,655	3,807	43·39
(2) Number of Patients treated.			
	36,342,417	54,132,152	48·95

12. Agriculture & Industries. It is difficult by means of statistics to indicate the improvements that have been introduced in agricultural methods by Governmental action. For a detailed description of the activities of the Provincial Departments of Agriculture, and of the Central Board of Agricultural Research, which was established as a result of the recommendations of the Linlithgow Commission, we must refer the members of the Committee to the official reports that are published annually. We may, however, give here one instance of the results achieved by the application of scientific research to agriculture. The imports of sugar into India until very recently were so heavy that the customs duties levied on sugar yielded Rs. 10·7 crores in 1930-31, i.e., nearly 23 per cent of the total customs revenue and over 10 per cent of the total net revenue of the country.

* Figures relate to 1920-21.

Owing to the introduction of improved types of sugar cane and the levy of protective duties, the production of sugar is growing so rapidly that it is estimated now that India will be completely self-supporting as regards sugar within the next three or four years.

The astonishing development of industries in India is generally admitted and in fact has caused some alarm in foreign countries. It is, therefore, unnecessary for us to give any figures, nor do we claim that this development is due to ministerial action in the Provinces. As we shall have occasion to state in a subsequent section of this memorandum, it is only the Central Government that can create the conditions necessary for the development of industries.

13. Local Self-Government. The principal services entrusted to local authorities in India are rural communications, elementary education, medical relief and sanitation. The statistics we have given above relate both to Provincial and local institutions. Judging by these, it is obvious that on the whole there has been a marked development. Emphasis has, however, been laid not so much on the development of the services entrusted to the care of these authorities, but rather on the alleged irregularities and cases of maladministration in some of the Provinces. We do not, of course, deny that there have been several failures, but such failures are, as the Simon Commission have pointed out, in no way peculiar to India and "they can be paralleled at various times in countries with a far greater experience of representative institutions". Nor have they been confined in India, to the Transferred Departments. There has not been in the history of the Indian administration during recent years such a colossal failure as the Bombay Back

Bay Reclamation Scheme, in which Lord Lloyd, who was then Governor took a personal interest and which has imposed a very heavy burden on the finances of Bombay for many years. We would draw the attention of the critics, who have sought to draw inferences regarding the competency of Indian Ministers from a few failures in local self-government to the report of the Back Bay Enquiry Committee,* and also to the reports of the Central Public Accounts Committee, which have brought to light serious irregularities even in the administration of departments not entrusted to responsible Ministers.

14. In the administration of local authorities since the Reforms, Indian Ministers have laboured under serious difficulties which can be traced directly to the attempts to carry out in its fullest implications the recommendations of Montagu-Chelmsford Report that "there should be the largest possible independence for local authorities of outside control". Before the Montagu-Chelmsford Reforms, there was in India nothing that could be recognized as local self-government of the British type. The principal administrative change that was made as a result of this recommendation in the Montagu-Chelmsford Report and its consequence have been fully described in the following passage from the Simon Commission Report:—†

"The principal administrative change made, in every province except the Punjab, was the substitution of an elected Chairman in almost every district and Municipality. This

*This Committee was appointed in 1926 by the Government of India to enquire into the Back Bay Reclamation Scheme. It was presided over by Sir Grimwood Mears, Chief Justice of the Allahabad High Court.

†Para. 350. Volume 1, Simon Commission Report.

measure, designed to carry out the policy of enlarging the sphere of self-Government by removing official control, in fact did far more than this; it radically altered the constitution of the local bodies and their relationship with the Provincial Government. The official Chairman had not merely been the presiding member, but actually the chief executive officer of the Local Board. In administering its affairs, he had never been entirely dependent on the Board's own staff. He combined in his person the authority of the highest revenue and the highest magisterial office in the district, and had in consequence at his command an army of other officials whose services he could and often did utilise in the discharge of his Local Board duties. His functions as Chairman of the District Board merely formed part of a varied complex the constituent parts of which fitted in with, and simplified the discharge of each other. His revenue and magisterial work took him to every corner of his charge, and these tours served at the same time to keep him in intimate touch—without any extra expenditure of time, money or effort,—with the requirements of local board administration.”

“It seems to have been expected that an elected Chairman should not only take the place of the District Officer as presiding member, but should also, without pay and in such time as he could spare from his own affairs, be the chief executive officer of the Board, with such assistance as he might obtain from an ill-paid Secretary, little better than a minute clerk, and from the technical officers such as the engineer and medical officer.”

It is not, therefore, surprising that there has been some loss of efficiency in some of the Provinces. The principal defects of the system introduced on the recommendation of the Montagu-

Chelmsford Report, are, as has been pointed out by the Simon Commission :—

(a) the absence of a “a class of skilled professional administrators who, while they follow the policy laid down by the elected representatives are at once their advisers and the instruments whereby their decisions are put into operation ” ; and

(b) the absence of a general system of grants-in-aid which in this country have been found to be more effective instruments of control than the exercise of statutory powers by the Central authority.

Political and financial difficulties have stood in the way of reforms in local self-government. The development of a system of grants-in-aid has been rendered impossible owing to the extreme financial stringency in the Provinces, for a grant-in-aid is very ineffective as a means of controlling local authorities unless it is substantial. The difficulties as regards the provision of efficient executive officers for the local authorities have been partly political and partly financial. The Collector of the District, who co-ordinates the work of all Departments, is obviously the most appropriate executive officer for the District Board, but so long as the Indian Civil Service is not completely controlled by responsible Ministers, political considerations will stand in the way of this important administrative development. The resources of the local authorities are quite inadequate for the employment of an executive agency as efficient as that which was under the control of the Collector of the District before the reforms. It may be noted in this connection that, as has been observed by the Simon Commission wherever (as in Madras) a system of grants-in-aid subject to inspection has been adopted, there has been very little loss of efficiency.

15. The difficulties of dealing with the local authorities who have been given extensive powers, which in some respects are wider than those possessed by similar bodies in this country or on the continent of Europe, will be appreciated by British politicians who are acquainted with the history of local self-government in this country in the first half of the 19th century. It is unnecessary for us to remind the members of the Committee of the formidable difficulties which Sir Robert Peel and other British statesmen had to encounter in the last century in reforming the police administration and other local services. Indian local authorities are very jealous of any interference with their newly acquired privileges and publicity is the only weapon on which the Central authority can rely. The system of surcharge has during recent years been introduced in several Provinces and the stricter audit which is now in force discloses irregularities which in the pre-reform days never became public.

The annual reviews of the administration of Municipalities and local Boards which are issued, it may be noted under the instruction of the responsible Indian Ministers, have also during recent years been of a very critical nature, for it is obvious that public opinion has to be created to some extent before powerful and influential municipalities, such as Benares, can be superseded by an exercise of the statutory powers. It is the extracts from these reviews that have furnished the critics of the White Paper Scheme with the material for their press propaganda. The following letter from Sir Alfred Watson, which appeared in the "Times" of 3rd June, 1933 summarises in a few sentences the true state of affairs :—

"Much is being made by those who oppose advance in India of extracts from the reports of the Provincial Govern-

ments on Local self-Government in India. These are held to be the condemnation of Indian control of Indian affairs. The point seems to be ignored that local self-Government is one of the transferred subjects in the hands of the Indian Ministers and that all these censures are those of Indians upon the administration of their own people; that does not support the contention that Indians are indifferent to inefficiency or corruption in Government. The level of Municipal government in India is low, and has never been anything else, but it is certainly improving under the watchful criticism of the Indians in whose hands its central control has been placed."

Central Responsibility.

16. We shall now deal with another contention which is the basis of the schemes put forward both by Mr. Churchill and Sir Michael O'Dwyer. It has been suggested that a scheme of provincial autonomy without central responsibility would give the responsible executive in the Provinces control over all the vital departments that affect the welfare of the masses and in particular over the so-called nation-building departments. Mr. Churchill stated that the administration of these subjects in vast Provinces should be regarded by the Indian politician as "a majestic task" and that he would not be prepared for a further transfer of responsibility until and unless this great experiment proved a success.

17. We deal elsewhere with the political and administrative objections to the reservation of Law and Order. Apart from political and other considerations, our assertion is that no Minister can accept real responsibility for the development of the nation-building services unless the policy in respect of

central subjects is also determined by a Ministry responsible to the people. The five principal nation-building services are :—

- (a) Education ;
- (b) Sanitation ;
- (c) Medical Relief ;
- (d) Industries ; and
- (e) Agriculture.

As regards the first two, it is generally admitted that the only impediment in the way of rapid advance has been finance, for there has been no dearth of either teachers or of qualified medical practitioners in India. As has been made abundantly clear both by the Hailey Memorandum and also by the evidence of eminent administrators like Sir Charles Innes, the financial difficulty arises from the fact that the margin of taxation is now very small and the increased resources necessary for these services can be provided only by a revival and development of agriculture and industries. Now the principal methods by which the Government can create the conditions favourable to agriculture and industries are :

- (a) Protective Tariff.
- (b) Development of credit facilities.
- (c) Transport facilities. (This is of special importance in India since the railway system is owned and very largely managed by the state); and
- (d) Maintenance of a level of prices favourable for the development of industries and agriculture. (This, of course, is dependent on the currency policy of the country.)

In other words, the administration of these two departments is vitally connected with and in fact dependent on, the policy of the Government of India in respect of the tariff, banking, railway

and currency, which are, of course, Central subjects. We venture to doubt whether the Minister of any country would be prepared to accept responsibility for the development of agriculture and industries without control over the tariff, exchange and currency policy of that country. It will be the function of the Central Government to create the conditions favourable for industrial and agricultural development by a tariff and currency policy suited to the country and for the Provincial Governments to organise and build on the foundations laid. The prosperity of the agricultural classes, it is hardly necessary to point out, depends not only on the out-turn of their crops, but also on the prices they can secure for the commodities they grow. The results of laborious years of agricultural research and organisation might be completely destroyed by an unsound currency policy. It is superfluous, however, to labour the point at present when stabilisation of currency and prices with a view to the revival of agricultural and industrial prosperity is a live issue in most of the countries of Europe and America.

APPENDIX B.

India's Debt Position.

1. The following statement shows the debt and other interest-bearing obligations of the Government of India in England and in India, outstanding at the end of 31st March, 1933:

(a) In India—

	£ Millions	Rs. Crores.
(1) Loans	446	9
(2) Other obligations (including Treasury Bills, Post Office Savings Bank Deposits, cash certificates, etc.,) ...	258	5
Total in India ...	705	4

(b) In England:—

(1) Loans	...	...	315·6	420·8
(2) War Contributions	...	...	16·7	22·3
(3) Capital value of railways annuities	...	...	47·0	62·7
(4) Other obligations	...	...	1·0	1·3
Total in England			380·3	507·1
Total in India and in England			...	1212·5

Interest yielding or productive assets.

(1) Capital chargeable to rail- ways.	...	...	751·6
Other assets including advan- ces to Provinces	...	217·3	968·9
(2) Cash, bullion and securities in Treasury	...	...	36·9
(3) Balance of unproductive debt, not covered by assets.	...	...	206·7
Total			1212·5

(2) From this statement emerge two facts which are of the very greatest importance to every British investor in Indian sterling loans and which cannot be given too much prominence in the political controversy that is raging in this country.

(1) In the first place it will be noted that five-sixth of India's debt is covered by productive assets, which are mainly state railways and irrigation works. We need hardly point out that the new constitution provides for the establishment of a Statu-

tory Railway Board with a view to the management of the Indian State Railway system on commercial principles, unhampered by political influences in the day to day administration.

(2) In the second place it will be noted that the internal rupee debt of India is nearly $1\frac{1}{2}$ times the sterling debt. An appreciable portion even of the latter is held by Indian banks, insurance companies, and individual Indian investors. It is obvious that any measures of the future Government of India that would affect the stability of India's finances or its credit in England would have serious repercussions on India's internal credit.

(3) In this connection a word of explanation is required as to the position of India's internal rupee debt. Industrial development and investment are still in their infancy in India and the educated middle classes, as in France, invest a considerable portion of their Savings in Government securities, Post office savings banks, post office cash certificates and, in the case of Government servants, the provident funds. The following figures indicate the amazing growth of this form of investment, particularly during the last ten years.

	31st March 1923	31st March 1933
	Rs. Crores.	Rs. Crores.
Post Office Savings 'Bank	... 23·2	... 42·6
Cash certificates	... 3·1	... 54·6
Provident funds	... 36·1	... 76·6

We have no recent figures of the number of persons who have invested money in the post office Savings Bank or the the Cash certificates but the Post Office Savings Bank deposi-

tors numbered 2,300,000 in 1929. The vast majority of the Government servants contribute a portion from their salary to the Provident funds and the number of persons who have invested in Post Office Cash certificates also probably runs into millions. These figures are of very great political significance since as is well known the upper and lower middle classes are the very section of the population who are most "politically minded" and among whom nationalist feeling finds expression in its most intense form. Any future Government of India which by its financial indiscretions endangers the financial stability or credit of the country would be very short-lived indeed, since it would have to meet the united opposition of all these classes including the enormous army of Government officers.

(4) We must now analyse, the unproductive debt (or, as it is sometimes described, the unallocated debt i. e. the portion of the debt not allocated to any productive assets such as railways) and attempt to discover the circumstances under which the present figure of Rs. 207 crores has been reached. In 1914 and 1915 there was no portion of the interest bearing debt which was not covered by actual assets*. This statement requires, some explanation for those who are not acquainted with the mysteries of India's accounting system. The figure of unproductive debt is, as has been observed from the statement in paragraph 2, arrived at by deducting from the total debt of India the amount which is allocated to railways and other commercial assets. The amount debited to one of these commercial departments, as for instance the railways, represents the capital actually expended on construction irrespective of

* This is based of paragraph 32 of the Memorandum on the financial separation of Burma, prepared by Sir Henry Howard and Mr. Nixon.

whether the amount so spent was found from loan funds or from current revenues. Thus, when a portion of the surplus revenues was spent on railway construction an addition was made to the railway debt and a corresponding reduction made in the unproductive or unallocated debt. Similarly when sinking fund charges were provided for wiping out the whole debt including the railway debt the whole of the amount was shown as a deduction in the unproductive debt (except the small portion which by statute has to be applied towards the reduction of particular items of the debt). For instance, out of the 7 crores of rupees which are annually provided in the Government of India budget for reduction or avoidance of debt, over 5 crores relate to the railway portion of the debt but in the actual accounts the railway debt remains stationary while there is a corresponding reduction in the unproductive debt.

(5) Two causes have primarily contributed to the growth of unproductive debt since 1914-15. These are.

(a) The heavy deficits in the Indian budgets from 1918-23 amounting to Rs. 98 crores largely caused by the abnormal defence expenditure after the Great War.

(b) India's enormous contributions towards the expenditure by Great Britain on the Great War. These contributions amounted to £ 146.2* millions at the end of 1919-20. This figure does not include the expenditure on various special war services which have been estimated at £57 millions up to the end of 1921-22. It includes, however, the special war gift of £ 100 millions, which India gave in March, 1917. Of this sum £ 100 millions, nearly £ 75 millions were raised in India by

* The figures given in this section are taken from the official publication "India's contribution to the Great War", pages 160-1.

means of the war loans in 1917-18 while as regards the balance the Government of India took over the liability for interest on an equivalent amount of the British Government war loan.

If India's total contributions towards war expenditure and the interest paid on war borrowings had been utilised for wiping out the sterling debt, there would have been little or no sterling debt to-day for a substantial portion of the debt was incurred before the war, when the rates of interest were very low. Until recently these pre-war Indian sterling securities were quoted at rates very much below par.

We may incidentally refer here to the answer given by the Secretary of State to question No. 8405 put by Major Attlee. He stated that, out of the debt of £ 100 millions put up by India only about £16 millions were now outstanding. It is true that out of the £25 millions the liability for which the Government of India took over from His Majesty's Government, only £ 16 millions are now outstanding, but it is not correct to say that the sum of £75 millions borrowed in India by means of war loans has been repaid. The War loans raised in the years 1914-19 in India were in most cases short term loans which were converted or repaid by fresh borrowings in the subsequent years, either in England or in India.

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