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FEDERAL FINANCE IN INDIA

BY

K. T. SHAH

Professor of Economics, University of Bombay.

D. B. TARAPOREVALA & SONS.

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A. G. M. D.

TO

MY FRIENDS

MAKANJI AND GULAB MEHTA

**"You upset me, my dear. What, then, do you
see in the eyes of your Models."**

"Their dreams,—or, perhaps, mine."

(The *Rosary* French Version).

PREFACE.

These Lectures were delivered at Patna for the Benall Readership of that University, for 1928-29. The subject chosen seems to the Lecturer to be one, which, at this juncture in our history, needs no special explanation or apology; greater than the one offered in the opening paragraphs of Lecture I.

Opportunity may, however, be taken of this Preface to add one explanation, which nowhere occurs in the text specifically. The treatment of the subject has been general, avoiding all particular discussion of the finances, whether of particular States or Provinces; not because the latter do not deserve to be carefully studied, but because, from the point of view adopted by the Lecturer, a detailed study of the several cases would have added unduly to the size and scope of his work, even if such a course could have added materially to the value thereof. Detailed study of the finances in individual Provinces and States,—and even in their likely components if split up, or their possible combinations if confederated, for purposes of cultural harmony or administrative convenience,—will have to be carefully made before the financial problem of the Indian Federation can be declared to have been solved. In these Lectures, however, the Lecturer has confined himself to considering rather the general principles or guiding considerations, which should attend the practical study of individual cases, than specific consideration of each separate case, in the hope that the line adopted by him would be as serviceable, at this juncture at least, as the other method of treatment.

Lecture V tries to concentrate in one place the case of the Indian States in certain matters relating to finance and economics. The stand-point has been adopted of the Indian States, almost exclusively, partly because that stand-point seems to be scarcely ever considered with the attention it deserves; and partly also because, in themselves, the questions raised in that Lecture need much wider publicity and more open discussion. The governing ideal of an Indian nation, in a federated form, has, however, been nowhere abandoned, or modified. Hence the suggestion for the combination of the smaller States to form more comparable and equal units in the Commonwealth of India;

The Lectures were addressed to an audience of University students of all classes, and were intended to be of general public utility, rather than as a piece of learned research. There is much, however, in these pages which the Lecturer hopes will be found to be new, at least from the point of view from which it is presented, if in nothing else. Comparative statistics, and learned analogies, have been, accordingly, kept under very modest proportions, so as not to scare away the ordinary student from a glance at the Lectures in book-form. The Lecturer trusts this course would add to the general utility of the Lectures, without materially diminishing such merit as they may possess as a contribution to our knowledge of Public Finance in general, and Indian Finance in particular.

Reconstructive suggestions have been attempted in the concluding Lecture; but they are unavoidably in a general form, being rough estimates rather even than close approximation. The main tendencies, however, of the developments in finance, as envisaged by the Lecturer, and according to the ideals held by him, are sufficiently stressed by the *pro-forma* statement of revenue and expenditure, to be suggestive, if not helpful.

The sources and authorities the Lecturer is indebted to have been freely acknowledged in the body of the Lectures. The material in connection with the Indian States was obtained by the Lecturer by the willing courtesy and sympathy of the Ministers in several States, too numerous to be particularised. Their contribution, however, has been too considerable not to be specifically, and gratefully, acknowledged, in this place.

University School of Economics and Sociology,
Bombay, 25th December, 1928.

K. T. S.

N.B.—Under the Notes and Instructions—(Part III of the Income Tax Manual)—16, Exemptions made by the Governor-General in Council, in exercise of the powers conferred by S. 60 of the Indian Income Tax Act, (6) exempts the interest on Indian Government securities held by Indian Chiefs and Princes, as the property of their States, from the Indian Income Tax: while by a Notification of the Finance Department, No. 25, dated 1st of July, 1926, the British Indian Income Tax is charged at half the usual rate on incomes on which both the British Indian and any State Income Tax have been levied. Cp. pp. 232-238. Among the Indian States maintaining a separate Post Office of their own, Travancore must be included.

BIBLIOGRAPHICAL NOTE.

It will not be quite in keeping with the general character of these Lectures to append a long bibliography. The subject, moreover, has seldom been treated from the stand-point here adopted by classic writers on Public Finance. The following works on the theoretical aspect of the subject, as on the working of federations elsewhere in the world, together with some leading works on Indian Finance, would, it is hoped, provide sufficient basis for the earnest student to begin his studies on.

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- Statistical Abstracts, Year-books, and Reports of Committees have been mentioned in the Text, wherever necessary; and so need not be specifically mentioned here. So also with regard to the Financial Statements, or the Administration Reports, of the several States, as well as provinces.
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