FEDERAL FINANCE

by

SIR SHAFAAT AHMAD KHAN

(Delegate to the three Round Table Conferences, 1930–32, and the Joint Select Committee, 1933)

SHRIMANT SAYAJIRAO LECTURES

DELIVERED AT BARODA

in 1939

Baroda State Press

1939

Price Re. 0-12-0

PREFACE

These lectures were delivered at Baroda this year on March 6 and 7. They were rendered possible through the munificence of the Gaekwad's Government, as they constituted the Shri Sayaji Rao Gaekwad series. The Baroda Government had done me the honour of appointing me to this lectureship, and every Indian scholar values this privilege greatly. I have not made substantial alterations, though a number of minor points which needed clarification have been developed here and there. They are mainly based upon an experience as a member of the two Federal Finance Committees of the Second and Third Round Table Conferences, 1931 and 1932 which constructed the financial structure of the Federation. I have not used any confidential document or other information in the preparation of these lectures, and have tried to avoid any topic which tended to wear a controversial aspect.

I have been a firm believer in the Indian Federation for the last ten years, and the march of time has tended to strengthen my belief that a Federation of British India and the Indian States offers the only satisfactory solution of our problems. Through it alone can the autonomy of our provinces be maintained in its integrity, and it provides us with an effective safeguard against violation of

minority rights. A federal Government does not mean a weak Government; it means a Government in which the powers of the units and the Federal centre are precisely defined.

It is my firm belief that most of the obstacles to the inauguration of the Indian Federation have been removed by tact, sweet reasonableness and prudence, and its success is now assured. I feel that the year 1941 will mark the introduction of Part I of the Constitution Act of 1935, and I have no doubt whatsoever that that year will herald a new era for India—an era in which the dream of twenty centuries will be realised and India will achieve her unity in a way which will be a source of inspiration to nations of Asia.

This little book attempts an analysis of the financial structure of the Act of 1935, and deals very briefly with many of the important problems which were the subject of prolonged discussions in London in 1930–1933.

31, Stanley Road,
Allahabad,
July 25, 1939

SHAFAAT AHMAD KHAN

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SIR KRISHNAMACHARI, MR. PRESIDENT,
LADIES AND GENTLEMEN,

I feel that I owe an apology to this distinguished gathering, which, if I may say so, contains the cream of Gujerat, for a change of subject. I had the honour and privilege of speaking on Indian History, last year. I am now called upon to say something on a topic which concerns almost every person in India, and will decide the fate of millions for generations. My only qualification for this supremely important subject is my humble and limited experience as a camp follower in the great army of constructive statesmen of whom my old friend, Sir V. T. Krishnamachari, was a distinguished figure. I have devoted nearly ten years to study of and discussions on a problem which is undoubtedly the greatest with which this country has been faced for centuries. This is an exceedingly short time for a complex and elusive subject, and I do not pretend to have mastered it. On the contrary, the more I study it, in all its aspects, the greater is the feeling that the unravelling of the tangled skein of this issue is appallingly difficult. I will try to do justice to the subject matter in a spirit of scientific enquiry, but I must utter a warning against the embarrassing facility with which such claims are often put forward. It is impossible for any one, however

realistic and experienced he may be in the method of his approach and the technique of his investigation, to maintain an absolutely neutral attitude on some of the points round which controversy has revolved with pitiless monotony. Such cold and calculating neutrality is impossible on a subject of vital importance to 330 millions, and I am sure that this distinguished gathering will not expect me to give a lifeless sketch of a movement which is instinct with energy and activity. We are not geologists seeking for fossils of pre-historic remains in the barren soil,nor do we deal with pre-historic antiquities. Our subject matter is man in his reactions to his environment, and our task consists in assessing the formative framework which the labour and devotion of some of the most distinguished sons of India has constructed. We must deal with the subject, not as antiquarians, but as practical men who have been engaged in day-to-day negotiations for several years.

Federations have normally been the expression of a general desire on the part of a number of political units, each possessed of sovereignty or at least of autonomy, and each willing to surrender to the new body which their pact creates an identical range of powers and jurisdictions to be exercised by it on their behalf to the same extent for each one of them individually and the Federation as a whole. This is an exact and traditional account of federation, and judged mainly by this criterion, the Indian Federation does not fulfil the requirements of logic or political theory. India has been a unitary State for centuries, and the highly centralised secretariat of the

Moghuls has its counter-part in the concentrated force, and powerful individuality of Simla. The British Indian provinces had been ruled from Simla in a spirit of centralisation which proceeded in its evolution through successive phases, and made its advance to its present stage by alternations of energy and repose, and culminated in the highly developed bureaucracy. The outstanding personalities of the Mughal administration were what Hegel calls plastic, penetrated through and through with a specific quality; those of the British bureaucracy were comprehensive and versatile; the intensity of their force in any one sphere is less remarkable than its suitableness to all. Prior to 1919, Provinces had to depend for their financial and political existence on the Gothic structure which the devotion and ambition of a long line of haughty proconsuls had reared in Simla and Calcutta. Provincial autonomy before 1919 was a farce or a tragedy or both, and Provincial representatives competed with ill-concealed jealousy among themselves for a generous helping of the loaves and fishes which the Burra Sahibs of Simla doled out to hungry governments enclosed within the circuit of their parochial pride and strongly marked by the pecular complexion of their administration. The scramble for grants took some peculiar forms, and the species of Dutch bargaining that went on behind the scenes must have formed the subject of caustic comment among the lynxeyed administrators who presided over the destiny of these suppliants. When they retired into the cell, whether of solitude or of repentance, the provinces ceased to pursue them thither; but the helplessness and

impotence of these invertebrates with their virile manhood and young promise, eager for expansion, but deprived of the rudiments of progressive administration can be imagined. Like Topsy, the British Indian Provinces had simply "growed," and were creatures of administrative convenience. They lacked then, as some of them do now, rudiments of organic unity and solidarity, and contained within themselves the seeds of conflict and clash. The British units of the Federation were, therefore, destitute not merely of sovereignty but also of autonomy at the time the discussions started in London in 1930 for a genuine responsible Government. The other class of units – the Indian States–are sovereign in their domestic affairs, and are bound to the Crown by treaties, engagements, sanads, usage and conventions. These two classes of the Indian Federation render the Indian federal structure infinitely more complicated than a unitary government, and these vital differences react upon every provision of the Act. One or two examples will suffice. The Princes, who are sovereign in their internal affairs, cannot be compelled to join the Federation against their wish and will. Again, the character of the Federal Legislature is determined by the existence of these classes, as each class inevitably demands effective representation both in the administration and the legislature. The relations of the two chambers of the Federal Legislature are also determined by the keen desire of Indian States to vest almost co-ordinate authority and power in the Upper Chamber. The States attached great importance to the last point, as they wanted to make the Upper Chamber a potent

instrument for cautious, moderate and conservative legislation.

The most significant effect of this difference in the ideas and aspirations of the two units is however to be found in the classification of subjects. The States were insistent on reducing the list of Federal subjects to an irreducible minimum, so that they may be free from constant interference and minute supervision, by the Centre. The smaller the number of Federal subjects, the greater will be the volume, depth and breadth of their autonomy. Freedom from vexatious interference was the cry among the States, and the latter were helped by a strong section of the British Indian Delegation, who visualised autonomous provinces, enjoying complete authority within their respective domains, and approximating to the position of States in power, influence, authority and, above all, freedom from interference by the Centre. This section pressed for substantial reduction in the number of Federal subjects and advocated wider powers for the provinces. Finally, the differences in the outlook of these two classes of Indian Federation are reflected in the proposals for Federal Finance. The States stressed the need for stability in the centre, and strongly advocated the reservation of a substantial proportion of the income-tax, to enable the newly created Federal Government to bear the strains which are inevitable in a period of transition, when ideas, desires and aspirations are floating in the air, when efficiency is not transmuted into co-operation, and energy is liable to be lopsided.

In the springtime of their political enthusiasm, they conceived India as a fallow field, beneath which lay buried several civilisitions. Behind stretched centuries of medievalism, with its free virility and passionate carvings.

I have given the briefest possible sketch of the significant modifications which the two classes of units in the federal structure have rendered inevitable. I do not wish to pursue the matter further, as a detailed treatment of this problem will take me too far afield, but I feel it is necessary to point to factors which are often ignored in the flood of criticisms to which the Indian Federation is subjected. Let us cast a glance backward, and see what the condition of India was, prior to 1919. There was one single budget for the whole of British India, and the income and expenditure of all provinces were included in the budget of the Central Government. In practice, of course, the rigidity of central supervision was modified by the imperious need for variation and elasticity, and was adapted to the distinctive feature of each province. The provincial Governments were practically agents of the Central Government, and the statute vested in the Secretary of State for India powers of superintendence, direction and control over the Government of India. The results of this system were obvious. The Provinces eked out an inglorious existence by being the recipients of doles from the Central Government. The system was demoralising in its effects on provincial energies and aspirations, and one has only to look at the enormous growth of a series of regulations called the Codes

of Instruction to become convinced of the absurdity of this arrangement. Provincial autonomy was stifled; primary education was paralysed; the *ma-bap* theory was developed of a despotic paternalism in which the citizens of the province occupied the position of helpless and inexperienced amateurs who dared not breathe a word of criticism, let alone of defiance. Lord Hailey, the great pro-consul of my province, confessed in a recent lecture what must have been inarticulate feelings of a number of able Englishmen. He stated that Englishmen ought to have conceded Indianisation in the administration much earlier and India might then have been spared the travail of agitation, disappointment and humiliation. This belated confession is the strongest possible indictment of a system which stifled initiative, deprived Indians of key-positions in the army, and prevented the growth of our individuality and intellect. Sense dawned at last in 1917, and the Montagu-Chelmsford Report stated, "We have to demolish the existing structure at least in part before we can build anew. Our business is one of devolution, or drawing a line of demarcation and cutting long-established ties. The Government of India are to give and Provinces must receive, for only so can the growing organism of self-government draw air into its lungs and live". This pledge was implemented under sections 45 (a) and 80 (a) of the Act of 1919, whereby administrative, financial and legislative authority devolved upon Local Governments. Administrative and Legislative devolution was effected through the classification of subjects while financial devolution was

achieved by allocating revenues of Local Governments, and the administration of subjects classified as Provincial. I do not think it is necessary to give details of these arrangements as they are familiar to all who have worked in provincial legislatures. It is sufficient to state that the division of subjects into transferred and reserved produced considerable friction in the working of provincial autonomy and several committees brought out the inherent weakness of the dual system of Government. .Dyarchy was condemned in the hour of its conception, but it lingered on for nearly sixteen years and was not abolished till 1937. I cannot trace the genesis of financial proposals which were broached in London in 1930–33 as discussions were confidential, and no useful purpose will be served by raking up old controversies which have been happily forgotten. There are however one or two points which should be clearly borne in mind by all who study the Act. These remarks are based entirely upon the published documents, and I have not drawn upon confidential information for the elucidation of this subject.

For the first time in the history of India, representatives of British India were brought face to face with the needs and requirements of Indian States. As one who served on both the Federal Finance Committees of the second and third Round Table Conferences and contributed his very humble quota to the framing of the financial structure, I have no hesitation in declaring that but for the spirit of compromise and give and take which animated

the representatives of British India and Indian States, it would have been impossible to develop the federal plan. It is on the rock of finance that most of the projects of federation have hitherto split. The history of Australian States before their federation in 1900 served a serious warning to all idealists who wished to start with a clean slate. Sentiment has rarely been the foundation of any federation in any part of the world, and idealism has never been an adequate substitute for the community of interests and solidarity of economic nationalism. To bring two divergent schools of thought who had moved and lived in entirely different spheres for more than a century and induce them to agree to a national scheme of finance was undertaking of no little labour and hazard. That the result was not entirely satisfactory, and many elements in both the sections were and still are dissatisfied, is hardly surprising to those who have been engaged in political negotiations or the study of fiscal problems. The scheme, however, must be taken as a whole, and judgment should be based not on isolated sections of the statute, but on the the spirit that permeates the Constitution Act of 1935.

The White Paper proposals of His Majesty's Government were based on the recommendations of the two Peel Committees of 1931 and 1932. Revenues derived from sources in respect of which the provincial legislatures have power to make laws were allocated as provincial revenues, while revenues derived from sources in respect of which the Federal

legislature has exclusive power to make laws were allocated as federal revenues. This is the logical and inevitable result in all federal structures. It postulates a precise demarcation of powers, legislative, administrative and fiscal, and the provinces secured for the first time in recorded history, power over finance which was backed by a parliamentary statute. The Federal legislature was empowered to assign to Provinces and States, in accordance with such schemes of distribution as might be determined, the whole or any part of the net revenue derived from salt, federal excise and export duties. The exclusive sources of federal revenues were import duties (except on salt), railways and receipts from other federal commercial undertakings, coinage, profits and shares in profit of Reserve bank, export duties (except the export duty on jute), salt duties, tobacco and other excises, except those on alcoholic liquors, drugs and narcotics. The salt duties and excises were to be levied by the Federal Centre, but a share was to be assigned to the provinces. In the case of export duty on jute or jute products an assignment to the producing unit was compulsory, and was to be not less than fifty percent of the net revenue from the duty. Again, the net revenues derived from succession duty, other than duty on land, taxes on mineral rights and on personal capital (other than land), terminal taxes on railway, water or airborne goods and passengers and taxes on railway tickets and goods, freights and stamp duties which were the subject of legislation by the Indian Legislature at the date of federation, were to be assigned to the Provinces, but the Federal Legislature

was to lay down in each case the basis of distribution among the Provinces, and was empowered to impose and retain a surcharge on such taxes for federal purposes. It was also proposed that a prescribed proportion not being less than 50 per cent, nor more than 75 per cent of the net revenue derived from taxes on income other than agricultural income except the taxes on the income of companies and of revenues derived from the taxes on the emoluments of Federal officers or taxes on income attributable to Chief Commissioners' Provinces and other Federal areas, should be assigned on a prescribed basis to the Governors' Provinces. The most striking change in the report of the first Federal Finance Committee, which was introduced by the second Finance Committee consisted in the fact that the net proceeds of income-tax which had been earmarked for provinces were divided between the Centre and its units in the proportions detailed above.

This brief sketch of the financial arrangements will bring out one or two points clearly. In the first place, the sources of revenue which have been placed at the disposal of British Indian Provinces are mostly inelastic, the demands of the Centre are mostly constant, and the range of federal expenditure is definite. I am, of course, dealing with the normal period, and not with a situation in which international complications may completely dislocate the federal budget. The largest item is the expenditure on defence, and this is mostly covered by the income from the customs duties. The latter have shown a tendency towards expansion though the

budget recently introduced in the Government of India shows shortage in customs duties which have so far enabled the Government to pay for the maintenance of a highly efficient, though costly, army. The Provinces, on the other hand, have an illimitable field for development. The dyarchical system was by no means favourable to the development of what are called nation-building departments, such as education, co-operative societies, agriculture etc. It is calculated that in a typical province, 70 percent of the revenue was spent on reserved and only 30 per cent on transferred departments. In my province, a sum of rupees one crore was reserved for the construction of police buildings, and a loan was actually floated for the purposes. This enlightened policy was followed at a time when illiteracy was producing appalling results in the country side, and a large part of the province was devastated by floods. The sources at the disposal of the provinces are proverbially inelastic, and from 1921 to 1936, one heard in the months of February and March, a sad tale of woe, recited in all the provinces, with strong criticisms of the injustice and inequity of the Meston Settlement.

It would be best to deal with the Federal Centre first. Let me begin by pointing out the formative principles which guided the delegates in determining the form in which our recommendations should be cast. The Delegates were not a congress of ambassadors from different and hostile interests, nor did they maintain their specific interests as agents or as advocates against other agents and advocates. Everyone,

of course, had his own standpoint; he was influenced by his predilections, his environment and his tradition and the programme of his party. It was only natural that each one should represent ably and strongly the case which he so ably represented. This is inevitable in all conferences, and is the logical result of parliamentarism. But a point was reached in the deliberations, when a compromise was essential, and a reconciliation of divergent views imperative. Otherwise discussion would have gone on interminably. Such points, invariably emerged after discussion. Even that section of the British Indian Delegation which aimed at sovereign States of British India, which would approximate to Indian States in the range, and variety of their powers, and, above all, in freedom from interference by the Centre, admitted the necessity for solvency of the Centre. Unless the Centre is solvent, and is strong enough to resist the shock of a serious international crisis, the units, whether they be British Indian or Indian States units, will topple down like a house of cards. The first Peel Committee had suggested that the net proceeds of income-tax should be distributed among the provinces of British India on principles to be determined later. There were many practical and experienced financiers who pointed out that the proposal would jeopardise the solvency of the Federation by depriving it of adequate access to revenue from direct taxation. Again, the relations of the Federation and Provinces would vary with the waning and waxing prosperity of the Central Government, and the provinces would be constantly engaged in offering a continuous challenge

to fate. There would be recurring causes of friction if countervailing contributions from the Provinces to the Federation which had been proposed for a term of years, could not be extinguished in accordance with a programme. The Percy Committee had investigated this point and had come to the conclusion that no time limit could be fixed for the abolition of contributions of such magnitude. The Committee had pointed out that even if there is a substantial economic recovery, some provinces would remain permanently deficit provinces, and their share of the income-tax would not be sufficient to wipe it off. The framers wished to start the provinces on an even keel and to give them sufficiently elastic sources of revenue to enable them to embark in the uncharted sea of agrarian and industrial experiments. As a necessary corollary to this principle it was clear to all that, without stability, the Centre could not function properly, nor could it be guaranteed against the shocks which financial and political crises may produce at any moment. Finally, it was agreed that after the transition period, which is necessarily of grave anxiety to all, we must constantly aim at equality of sacrifice by the two sets of units, and the federal sources of revenue should be derived from British India and the Indian States alike. These were operative principles which guided the members of the two Federal finance Committees. That these aims were not realised will be clear to all who go through the sections of the Act, and the reason for it is to be found in the atmosphere that pervaded their deliberations-a spirit of hope and faith, tempered by

caution and experience. To transmute aspirations into a tax, convert energy into the sacrifice involved in paying out of one's pockets and harness enthusiasm to the delicate process of securing contribution from citizens for the support of the State are achievements which few have been able to realise in their entirety. Even Dr. Schacht has not been able to work this miracle in Germany, and I have yet to meet a financier in India who can emulate his example. We then moved in a universe of large expenses and vast vistas, and the mutual attractions and repulsions that presided over these deliberations produced certain specific qualities which crystallised in specific proposals by representatives of the two sets of units—British Indian and Indian States. The Centralists contended that a strong financial structure is vital at the centre, as it is the centre which collects, centralises and diffuses energy, intelligence, and, above all, financial stability throughout India. The autonomists argued that the provinces with their virile manhood, and young promise, have memories of successful administration and imperious originality which blend with the impulses of a new life in an uninterrupted sequence of national conciousness and organic unity. A financial structure was evolved in which these two principles jostled incongruously. This accounts for the disillusionment which followed the publication of the Percy Committee Report, and the disappointment which was felt by representatives of Provinces with the meagre and diluted form in which fiscal autonomy was incorporated in the Act.

Let me now deal with the definitive proposals as embodied in the Constitution Act. The main sources of federal revenue may be briefly sketched here. We start with Customs duties which include export duties; next excise duties on tobacco and other goods manufactured or produced in India, except alcoholic liquors for human consumption; and drugs like opium and hemp. Our next great division comprises the corporation tax and income-tax; other items comprise a variety of taxes, such as terminal taxes on goods or passengers carried by railway or air; fees in respect of many of the subjects in the Federal list; rates of stamp duty, on receipts of bills or exchange, cheques, promissory notes, bills of lading, succession duty and State lotteries. The list seems imposing enough and to these sources must be added the surcharges which the Federal Government may impose, in accordance with Section 137, on Stamp and succession duties, terminal taxes on goods or passengers carried by air or railway, and taxes on railway fares and freights.

Looking at the picture of Federal budget, one is struck by several features which are bound to strike every one. In the first place, the resources placed at the disposal of the Provinces are almost rigid, and there is no prospect of expansion of their revenue. In most of the provinces, the mainstay of the administration has been the land revenue. Next comes the excise. With a number of tenancy reforms on the anvil, it seems impossible to maintain the old level of land revenue. Regarding the second great source of income-the excise—it is

sufficient to point to the general desire for prohibition, and the measures taken by many provincial governments to enforce it in selected areas. The Provincial budgets show alarming deficits, and the insistent demands of reformers for expansion of compulsory primary education must be met by a liberal provision for village schools throughout an enormous area. It has been calculated that the introduction of primary education in British India will entail a cost of 36 crores a year, and the major provinces will have to pay a substantial proportion of this expenditure. These are weighty objections to the financial provisions of the Act, and I should be the last to deny the force of these criticisms. The critics, however, ignore the difficulties which the delegates experienced in the framing of these schemes. The Central Government is the pivot round which the whole administration of India revolves, and convinced as I am of the necessity of investing the provinces of British India, with substantial legislative, administrative and financial powers, and making them ultimately sovereign States of British India, I am no less convinced of the fact that governments in general, and the Central Government in India in particular depend for the maintenance of their existence upon credit. Now, credit is an exceedingly sensitive plant, and needs most careful watching. Once the credit of a Government is shaken, panic and distrust are contagious. Had we not ensured the safety of the Central Government, and guaranteed its solvency by investing it with sufficient resources, the centre would have been left hanging in the air, liable to all the gusts and storms of international crises and

financial dislocations. The entire financial structure of India would have crashed. I am not sure if this can be prevented in future; but I am certain that if the Centre had been deprived of further financial resources the provinces would have been seriously involved in the constant demands for extraordinary contributions to meet abnormal situations. Stability and solvency are no less essential than security, and public credit, once shaken, is difficult to restore. One has merely to glance at the Memorandum prepared by the Government of India in 1931 for the Federal Finance Sub-Committee, and published in its proceedings, to be convinced of the wisdom and foresight of the framers.

There are two other items which must be taken into account in our estimate of these proposals. It was calculated by the Finance Member in the Budget for 1937-38 that the separation of Burma from India will entail a net loss to India of Rs. 233 lakhs. To this must be added an additional expenditure of 4·5 crores which the Centre is required to pay to deficit provinces such as Sind, Orissa, Assam, North West Frontier Province, Bihar and Bengal. Compared with the rigid and inflexible system which was in force before 1937, the arrangements effected by the Act of 1935 are most generous to the Provinces. There is, indeed, little possibility of an increase in the resources either of the Central or Provincial governments, until India is in a position to start on an organised and intensive commercial and industrial expansion. The key to the solution lies in the industrialisation of the country, and not in

robbing Peter to pay Paul, and paralysing the activities of the Central Government, which must remain the nerve centre of our activities until provinces are able to stand on their legs. Critics who indulge in a sweeping condemnation of these financial arrangements have not come forward with any alternative proposals and have concentrated their efforts on destroying it root and branch. Let us look at the situation from a broader point of view. On the first of March, 1937, the Government of India provided for a total net revenue on the existing basis of taxation of Rs. 79·99 crores, and an aggregate net expenditure of Rs. 83·41 crores. The Budget of the Government of India introduced last month shows only a slight variation. Now this amount may seem very large to people in India. As a matter of fact, the entire income of the Government of India is exceeded by the income of some American cities, as New York. The income of the City of New York is higher than that of the Government of India, and almost approximates to the total income of the Government of India and provincial Governments. The Budgets of the Central Government for the years provide for a revenue of almost fifty per cent from Customs, while the Central Excise Duties and the Corporation Tax yield nearly 9½ crores. Taxes on income other than Corporation Tax yield nearly 13 crores. It is probable that the Income Tax Act recently passed by the Legislature may bring nearly 2½ crores more; Salt yields another 8¼ crores; though the estimate of Government of India is an under-estimate. These are the major sources of revenues out of which

the Federal Government is expected to organise an efficient machinery for the Government of the country at large. Nobody has yet advocated the distribution of customs between the Provinces and the Centre: it is rightly reserved for the Central Government, as without it, it would be impossible for the administrative machinery to function. I am, however, doubtful about the Income-tax. I feel that the provinces ought to get a larger percentage than fifty from this source, and the provincial governments have been seriously handicapped by the paucity of their resources. If an extra 3 crores had been allotted to the provinces, it would have been possible for the ministers to show the reality and potency of their newly acquired rights. As it is, the ministers are attacked for doing little for the uplift of the masses, and they repeat the stereotyped replies in which ministers under the dyarchical system invariably indulged—lack of funds. The provinces have a feeling of genuine grievance against the Centre for the way in which a substantial proportion of income-tax has been taken away from them, though it had been explicitly declared in the first Peel Committee that the whole of income-tax, after deducting collection charges, was to be reserved for the provinces.

On the whole, it must be stated quite frankly that the scheme actually devised was the best that could be designed in the circumstances. Criticisms have been levelled against specific parts of these proposals, but they lose most of their force by absence of any constructive scheme. If critics

could prepare an alternative scheme and place it before the public for expert examination, it would undoubtedly lift the discussion to the plane of constructive contribution to the solution of a baffling problem. But I have yet to come across a plan of this kind, and I feel that until some such proposal is before the public, the present system holds the field. The Central Government may utilise the provisions of section 137 and impose a surcharge on succession and stamp duties, terminal taxes and taxes on railway fares and freight. I do not think the yield from these surcharges will be considerable, nor is it probable that the Central Government will levy them immediately. If a high rate of surcharge is imposed, the yield from this source will be proportionately reduced, and the provinces will be the chief sufferers though the Central Government will, under section 137, distribute the net proceeds among the units of British India. There will naturally be frequent consultation and co-ordination between the Central Government and the Provincial Governments, on the rate of succession and stamp duties, and it is inconceivable that a very high surcharge should be imposed by the Central Government without the consent of the British Indian units. A further precaution is embodied in section 141 of the Act which lays down that no bill or amendment which imposes or varies any tax or duty in which provinces are interested, or which affects the principles on which under any of the foregoing provisions of this chapter moneys are or may be distributed to provinces or states, or which imposes any such federal

surcharge as is mentioned in the Act, shall be introduced or moved in either Chamber of the Federal Legislature except with the previous sanction of the Governor General in his discretion. The Governor General shall not give his assent to the introduction of any bill or the moving of any amendment as aforesaid unless he is satisfied that all practicable economies and all practicable measures for otherwise increasing the proceeds of federal taxation or the portion thereof retainable by the federation would not result in the balancing of federal receipts and expenditure on revenue account in that year. It is suggested by some critics that this would enable the Federal Government to impose any tax or duty on any province and that it might be embarrassingly easy for the Governor General to give his sanction to the introduction of this measure. This criticism ignores the intimate relationship that will and must subsist between members of provincial and Federal Legislatures. The members of both these bodies will also be active members of their political organisations, and it is highly improbable that they would allow any Bill to be moved in the Federal Legislature which would adversely affect the finances of their province. It must, however, be admitted that the example of Australia points the other way, and the words "practicable economies" have been utilised to cover a multitude of acts which are most strongly objected to in the Commonwealth. Probably, it would have been best if the emergency had been clearly defined, and the action of the Federal Government restricted within narrow limits. I may refer here to section 104 in this connection. As every student of the new Act

knows, this section lays down that the Governor General may by public notification empower either the Federal Legislature or a Provincial Legislature to enact a law with respect to any matter not enumerated in any of the lists in the seventh schedule to the Act, including a law imposing a tax not mentioned in any such list, and the executive authority of the Federation or of the Province, as the case may be, shall extend to the administration of any law so made, unless the Governor General directs otherwise. In the discharge of the functions under this section, the Governor General shall act in his discretion. This provision is designed essentially to meet an emergency, and it is hardly likely that the Governor General will flout the organised opinion of India as a whole, and enact a law which is likely to make him unpopular with all classes. Nothing is more likely to arouse an outburst of national indignation than action which impinges upon the rights which are expressly vested in provincial legislatures. In the event of an international crisis, calling for the intensive mobilisation of all resources of the country, it is not merely the right, but the duty of every executive to adopt effective measures to avert a disaster. The states are not involved, and the section is confined to the federation and the British Indian units. But in a crisis of serious magnitude, while the Governor General may resort to this section, the Representative of the Crown will urge the States to give their quota. Judging by the glorious example set by the Princes in the last Great War, there is no reason to suppose that they will lag behind any class in India in making sacrifices for their country. There may be other cases

which fall short of an actual war in gravity but are serious enough to demand the inflexible vigilance of the executive. A financial crisis in London may have serious repercussions on Indian finances, and the financial structure may crumble if proper measures are not adopted to meet this contingency. Such financial crises have occurred in England. I need only mention the crises in the years 1713, 1797 and 1825, when millions of persons were affected. This section is designed to meet a situation which I hope will never arise, but the dictates of wisdom, no less than those of caution, imperatively necessitate a reserve of power to be utilised in emergencies by the central authority.

Let me-now deal with the contributions of Indian States to the federal fisc and its relation to the general scheme of federal finance. The ideal which was constantly placed before every student of federation was equality of sacrifice and equality of contribution of all units to the Federal Government. On *a priori* grounds, it is not only unreasonable but inequitable that some classes of units should escape either partially or completely, their obligation to the defence of their country. Under the scheme as actually devised it is proposed that the States are liable to taxation only on certain items in the federal list, and their total contribution to the federal fisc will undoubtedly bear an exceedingly small proportion of the total federal income. The defence expenditure of the Government of India consumes nearly half of the revenue of the Central Government, and it appeared to many champions of British India that an arrangement whereby

the Indian States paid nothing for the maintenance of Indian defence service was most unsatisfactory. I do not think it would serve any useful purpose if old controversies, which are now happily forgotten, are raked up anew, but it is essential to notice that Indian States have a very cogent and effective reply, and it has been given on all occasions on which these demands have been formulated. They have treaties solemnly ratified by the Paramount Power in which they were promised effective protection against aggression and internal disorder. It was on account of this promise that most of the States either ceded valuable territories or promised to pay a subsidy to the Paramount Power. They, therefore, have performed more than their share of the obligation, and cannot be asked now to pay again for services which entailed considerable sacrifice of their dominions, prestige, reputation and independence in the past. Moreover, many Indian states maintain defence forces which are comparable with any troops in British India in efficiency, discipline, and equipment. The State forces are always liable to be employed for national aims and purposes in times of emergencies, and it seems natural that the States having discharged their obligations, the British Indian tax-payer should be called upon to perform his share.

It would be best if we take the various sections of the Act of 1935 and point out the implications of these sections so far as Indian States are concerned. Duties of customs, including export duties this subject has entailed considerable discussion in the past, and I do not propose to go into

the question here. It has been the focus of an acute controversy, and the Davidson Committee went into the question with great care and thoroughness. There are, of course, individual cases of States which maintain their own ports and levy their customs duties. I do not propose to discuss specific cases; nor will I deal with the various stages through which this controversy passed. What I should like to emphasise here, is the existence of the inherent right of local sovereignty enjoyed by the maritime States. The maritime States which have their own sea-ports are entitled to and do levy their own customs duties. They have enjoyed this right for a long period, and have earned it by the skill and zeal they have displayed no less than by the higher level of intelligence and material comforts which are the direct consequences of their administrative efficiency. They cannot be deprived of this right without their own consent, and there are few persons in British India who will approve of any action by the Paramount Power which directly or indirectly impinges upon their authority in this respect. Section 147, 6(b) and paragraph XV of the Instrument of Instructions requires the Governor General to see that no "Bill of the Federal Legislature shall become law, which would imperil the economic life of any State, or affect prejudicially any right of any State heretofore or hereafter recognised, whether derived from treaty, grant, usage, sufferance or otherwise, not being a right appertaining to a matter in respect to which, in virtue of the Ruler's Instrument of Accession, the Federal Legislature may make laws for his State and his subjects."

The present position is fully explained in the Davidson Committee, and as many questions of importance are at issue between the Government of India and some of these States, it would not be proper for me to say anything at this stage. I think that few persons will disagree with the general proposition that there should be uniformity in the rates of customs duties levied respectively at State ports and ports of British India. Again it must be stated unequivocally that treaty rights make it impossible for the Paramount Power to abrogate, modify or repeal any of the provisions of these treaties, without the consent of the States, unless, of course, there are exceptional circumstances which necessiate the exercise of paramountcy. It must also be admitted that they possess by virtue of their sovereignty the right to levy and to retain sea customs duties at their own ports. Again, no impartial person can deny that the existing rates of duties have been determined by the Central Government without reference to the needs, requirements, and policy of maritime States. Moreover, it must be stated that their revenue from this source is elastic and substantial, and it plays an important part in the organisation of their nation building departments. From the point of view of the Central Government it may be stated that federation postulates a uniform system of customs duties. By uniformity is meant, specifically, uniformity in the rate on each commodity, in the machinery of collection, and in subordination to the federal authority, nor can it be denied that concentration of all customs affairs in one central authority would be conducive to efficiency

and economy. There is undoubtedly a danger in the competition between the State and federal administration of customs administration. Moreover, there have been changes in the fiscal policy of British India which have enabled certain States to reap unfair advantage, and the British Indian tax-payer has not reaped any benefit from the duties on Customs which several States have levied in a spirit of fierce competition with the rates prevalent in British India. To these objections the States have impressively pointed out that their subjects have no voice in the determination of the policy of the Central Government, and the treatment by the latter of some States on these points has been high-handed and unfair. Finally, it must be stated that customs duties are recognised as the principal items in the Central Government Budget, and if they are reduced the Central Government will be literally unable to function. The customs duties feed and maintain the entire defence force of the country, and constitutes practically 50 percent of the total income of the Central Government. The history of Viramgam Line from 1905 to 1917, which extended from the Gulf of Cambay to the Rann of Cutch along the British frontier of the Kathiawar States is a classical example of the strange policy adopted by the Government of India in their dealings with the maritime States. I do not think it would serve any useful purpose to refer to the conference of maritime States held at Mount Abu in 1927, and the reimposition of the Viramgam Line. To any one who has studied the history of this Line from 1905, it would be perfectly clear that the Government of India

who were an interested party were not only judges but also the executants of their own decisions. A proper course would have been to refer this matter to an independent tribunal and to implement its decisions without delay. One of the strongest arguments which can be alleged in favour of Federation consists in the complete failure of the Central Government to consult the Indian States in the inception and execution of policies in which Indian States are vitally interested. I will not pursue the dreary history of the Viramgam Line further, nor will I comment upon the highly developed technique to which the Central Government invariably resorted in their conferences and negotiations with Indian States. Whatever the ideological reasons for the surrender of such rights may be, however strongly some of us may feel with regard to the nature of rights which time has rendered almost obsolete, we have to admit that there is not a single State which would be willing to give up these rights. It is difficult to sustain an argument in the face of a deep-rooted sentiment, and it cannot be denied by any one who has moved in the States that these rights are regarded as an insignia of their sovereignty. They are the visible symbols of a feeling which is deeply cherished by almost all maritime States. Again, for some States, it involves issues of supreme importance to their economic existence. The life of a State is sometimes bound up with the growth and development of its ports. Indeed maritime States have not contemplated – and do not contemplate now – the surrender of this right. No compensation, however high it may be, will induce

them to change their opinion. The Davidson Committee suggested a compromise whereby maritime States will be enabled to retain in their own hands the value of duties on goods imported through their ports for consumption by their own subjects, though it might involve some slight diminution of federal revenues. The difficulties inherent in the application of this principle are clear enough. It would be impossible to assess precisely the values of duties on goods imported through State ports for consumption by the State subjects, and some supervision by the federal authority would be necessary. Such a provision might conflict with treaty rights, and the Crown cannot think of imposing it on the States without their consent. Supervision of States customs by federal customs officials will be resented by the States and may produce considerable friction. On the whole, it would be preferable to have a working compromise on the lines indicated above, though it must be confessed that the difficulties are serious enough.

Let me now give tentatively my main conclusions on this vexed problem. The Viramgam Line as actually established and worked should be abandoned, and no such line under any other name should be established anywhere else. I can suggest no other practicable alternative than the one suggested above, whereby States would be enabled to retain the duties on goods imported through their own ports for consumption by their own subjects. This is the best course that can be suggested, but it is subject to the essential proviso that the consent of the State concerned is obtained, if they feel that any of their

existing rights are affected. I reject as entirely impracticable the suggestion that all such right should be surrendered on payment of compensation. Very few States would agree to this proposal; even if some States actually consent, the amount demanded by them will be so large that it would be impossible for the Federal Government to find sufficient funds to pay the enormous amount that will be demanded by them. I am of course speaking of a general allround relinquishment of such rights by the maritime States. It is always possible to effect a settlement in particular cases. I believe that this has been done in a few cases and should be attempted in other cases.

It may be objected to by constitutional purists that the Indian Federation will not be a reality unless the Federal Government has exclusive right to levy and collect customs duties throughout India. The obvious reply to it is that the Indian Federation is *sui generis*, and unless we take the realities of the Indian situation into account, we shall never be able to achieve a genuine harmony and solidarity of sentiment between the two units of Indian Federation. We cannot elaborate a constitutional structure with the embarrassing facility of Abbe Sieyes; we have to conceive a plan in which innumerable groups and varied interests would move in equipoised harmony like planets in a constellation.

FEDERAL FINANCE

Lecture II

March 7, 1939

Ladies and Gentlemen,

Yesterday, I dealt with some problems of Federal Finance; today I shall deal with some of the other problems with which the provinical Governments, the Central Government and the Indian States, will be faced. I have confined myself to the provisions of the Government of India Act of 1935, as otherwise it would be impossible for me to discuss numerous other problems which have been the subject of discussion during the last ten years.

Internal customs duties.—Many Indian States possess the right to impose customs duties on their land frontiers. On principle, the exercise of this power by units of a Federation is inconsistent with the basic principles of federalism. Internal freedom of trade in every part of India is an ideal which must be kept constantly in view, and component units of the Federation should be generally debarred from levying internal customs duties. The Act rightly safeguards free trade between provinces of British India, and it cannot be denied that inland customs in Indian States will introduce complications in federal

administration. It should certainly be our endeavour to have freedom of trade among all the units of the Federation. That this right sets up a strong barrier to the growth of a fully developed Federation, is undeniable. But the financial stability and economic development of many Indian States depend upon the yield from these duties, as they form a substantial proportion of the income of some of the powerful States. It would be highly detrimental to the economic life of a State to give up this power, so that it may conform to a fixed and immutable ideology, and few delegates insisted on the abolition of this right. They knew that no State would agree to this course and most of them knew that realism and ideology moved in different spheres, and were rarely brought into contact. The pure theory of federalism pointed one way, Indian conditions unhesitatingly indicated an entirely different direction altogether. Had this principle been adhered to many States would have had to part with this power before they entered the Federation. It is needless to state that no State would have agreed to this course, and the Federal scheme would have simply remained a paper scheme. Hence, though the new constitution has established freedom of trade amongst units of the British Indian Federation, it has wisely refrained from applying it to the Indian States units. Here, as elsewhere, custom, usage, and treaty rights must be given the fullest recognition and the States should be left free to evolve some alternative system which will take their place. These duties are really allied to terminal taxes and octroi duties and cannot properly be called customs duties in many cases.

It has been suggested that item 44 of the Federal List could be so utilised by the Federal Government as to render nugatory the right of Indian States to internal customs duties. The item includes "duties of customs, including export duties". These items, it is contended, may enable the federation to prohibit the import or export of goods across a customs frontier, and the latter can be defined by the Federal Government so as to lie on the land boundary of a State. Such an interpretation is inconsistent with the specific provisions of the Act. The Peel Committee discussed inland customs duties, and though they approved their abolition in principle, they felt that it should be left to the discretion of the States to be effected in course of time as alternative sources of revenue became available. For many States inland customs duties represent a source of income which is second only in importance to land revenue. We cannot expect any State to give up this right, as it is an extremely important source of income to many States. All that need be done at the present stage is to maintain the restrictions which the Government of India have imposed on certain States in the past. It is of course impossible to effect relaxation of existing commercial treaties, as was done by the Inter-Portal Convention with Cochin and Travancore which was signed in 1865. So far as the legal position is concerned, the States have retained their right to impose these duties, and it is inconceivable that the Government of India should try to get round the Act by shifting their frontiers on the land-boundary of a State. If they do so, action would certainly be taken under section 108 (1) (f) of the Act,

while Paragraph XIV of the Instrument of Instruction to the Governor-General effectively safeguards them against such actions. The Government of India Amending Bill, 1939 aims at facilitating the administration of customs throughout British India, and will not affect the existing rights of Indian States, so far as external or internal customs duties are concerned. Item 19 in the Federal List deals with the "import and export across customs frontiers as defined by the Federal Government". It may be argued that item 19, may enable the Federal Government to alter their customs frontiers, but the most authoritative interpretation that can be put on this item is that it is concerned exclusively with the Federal frontier of India which is defined in section 311 (1) of the Act. Hence the apprehension of some Indian States does not seem to me to have been based on any reasonable or legitimate ground; however, to reassure the States on this point, it is, in my humble opinion, necessary that the matter should be clarified in the Bill for the Amendment of Government of India Act of 1935, which is now before the House of Commons. Such a step will reassure the States.

Section 140 of the Act provides that duties on salt, Federal duties of excise and export duties shallbe levied and collected by the Federation, though an Act of the Federal Legislature may provide for payment, out of the revenues of the Federation, to the Provinces and to the federated States, to which the duty extends, sums equivalent to the whole or any part of the net proceeds of that duty, and these sums shall be distri uted among the Provinces and States in accordance-

with such principles of distribution as may be formulated by the Act. The Percy Committee calculated that the income from this source will be inconsiderable, and the Memorandum of the Government of India tended to confirm this impression. This will be a powerful lever in the hands of the Federal Government as the imposition of countervailing excises on steel and sugar has brought in a substantial amount. "Goods", as defined in section 311 "include all materials, commodities and articles." It may, therefore, be contended that this item may authorise the Federal Government to impose a duty on agricultural commodities of all units and the Federal Act may be so framed as to wipe out a part of the land revenue as well as the proceeds of a tax on agricultural income by the Federation levying a duty on agricultural produce. The objection seems to me to be prefectly groundless as the land revenue is the mainstay of all Provincial Government, and if the incidence of land revenue is directly affected, the representatives of all Provinces will relentlessly oppose such a measure. The framers of the scheme contemplated that countervailing duties would be levied on the import of all articles on which an excise duty was imposed by the Federal Government.

Corporation Tax:—This is defined in section 311 and may be briefly summed up as a super-tax on the profits of companies which are in excess of Rs. 50,000. The Ruler of a federated State may pay a sum equivalent to the yield from this tax in his State and the Corporation Tax will then not be levied in his State. The tax will be levied ten years after the establishment

of the Federation. This is a counterpart of the Income-Tax which will be confined to British India. It was felt by the representatives of British India that the Indian States should be called upon to contribute to the revenue of the Federation and many States put up a desperate resistance to the imposition of this measure. It was opposed by the Nawab of Bhopal on behalf of the Princes' Chamber when he spoke on the report of the Federal Finance Committee; while in the Third Round Table Conference, the matter was again thrashed out and the ability, experience and brilliance of many of the States' representatives were mobilised to oppose the encroachment of their sacred domain. The Joint Select Committee however retained it, and it is now a part of the Act of 1935. A number of modifications and suggestions were introduced later on by many representatives of States, but the original proposal of the First Peel Committee held the field. This is the one important tax which will apply directly to Indian States; as the Income Tax is confined to British India. There are few impartial persons who will oppose this measure, as it is this item on the list which was deliberately designed by the first Peel Committee in order that the Indian States units may be obliged to contribute their proportion to the federal exchequer. It was felt by the British Indian delegates that as the British Indian taxpayer will have to shoulder the burden, it is only fair that the Indian States should contribute a small amount. The tax will apply to States after the establishment of Federation, and only a few highly industrialised States will be affected by it.

The yield from this tax will bear only about 20 per cent of the total yield from income tax which as stated previously will be paid only by the British Indian tax-payer. It is calculated that the yield from Indian States will amount to nearly $2\frac{3}{4}$ crores.

Salt:—We are thrown into the vortex of an acute controversy in dealing with this subject. The normal demand of India, excluding Kathiawar and Cutch, isnearly 2 million tons of salt per annum or an average of 12 lbs. per head of the population. Of this, nearly 75 per cent is produced in India itself, and with the exception of 10,000 tons of salt from the Punjab, is derived from solar evaporation of salt water or brine. The remaining 4,50,000 tons are imported. I do not propose to deal with the chequered history of the curious technique and one-sided bargains which the masterful proconsuls of the Government of India had evolved in their dealings with some Indian States on this point. Some States complained before the Davidson Committee of the method employed by the Central Government in forcing these agreements, but the logic of *fait accompli* in which they had acquiesced in the past, proved too strong for the Committee; and they refused to tear up the old agreements, or discuss the medieval methods of crude bargaining in extorting favourable terms. Prescription throws a pall over the actions of our ancestors and prudence is a happy companion to stark realism. It is obviously difficult to secure the restoration of these rights in 1939, and apportion praise and blame between the two parties for what occurred nearly eighty years ago. Suffice it

to state that the Central Government entered into agreements with Indian States which possessed salt works and operated them and placed the surplus in the markets of British India. The East India Company resorted to the cumbrous device of establishing invertebrate cordons which sprawled across thousands of miles and involved an enormous expenditure. One of the most important of these cordons stretched for 2,472 miles from the Indus to the Central Provinces, and was guarded by an army of 13,000 officers and men at a cost of 16¼ lakhs of rupees. There are some vivid and humourous accounts of this Chinese wall as it were, which maintained, fed and clothed thousands of men at an enormous cost, and it is an apt illustration of the crude ingenuity of the Company and the vague development of the company's sovereignty in thick forests. The huge impenetrable hedge of thorny trees, evil plants, stone walls and ditches through which no man or beast could pass without being stifled or searched, must have proved a formidable barrier to circulation of trade and industry and was a visible symbol of the great gulf which yawned between two parts of India. The Government of India wisely purchased the great Sambhar lake from Indian States in 1869–70 and the primitive device of an unending cordon was consigned to the limbo of oblivion. Agreements were made with nearly fifty States; and uniformity was introduced in the complicated mass of petty administrations. The price of salt was reduced, more efficient methods of production were adopted, and transit duties were abolished. It must be frankly stated that in achieving

these aims, some officials did not hesitate to resort to compulsion in States where persuasion had failed, and the duty on salt which had hitherto been extremely light, was substantially increased. The Davidson Committee recommended that all restrictions on the marketing of salt in Kathiawar should be withdrawn and the Kathiawar States should voluntarily submit to the collection by Federal officers at the source of manufacture, of the All-India excise duty. Jaipur and Jodhpur have responded to this suggestion. The Kathiawar States are vitally concerned, as they manufacture large quantities of salt. Though the latter may lose their sovereign rights, the Federation as a whole will benefit, and I have no doubt that the abolition of all restrictions on the marketing of Kathiawar salt will be conducive to the good of the States. The total value of privileges in respect of salt employed by Indian States excluding Kathiawar and Cutch which were classified as immunities was calculated by the Committee at Rs. 38,15,151, and if Kathiawar and Cutch were included, the total annual value would be Rs. 46,06,157. The Federal Finance Committee estimated the net receipts from salt taxation at Rs. 555 lakhs which constitutes 6½ per cent of the estimated federal revenue. Salt duty is, therefore, a very important item in the federal fisc.

Before I conclude this item, let me refer here to the grievances of many States over the manner and method which the Government of India employed in forcing agreements relating to salt. Many States felt deeply the cavalier methods whereby these agreements

were forced upon them against their consent. There is considerable justification for this resentment, though it must be admitted that a settlement of this problem was vitally necessary for uniformity of policy and administration. The administration of salt duty on a national basis is a very important function of the federal government, and while local rights and State sovereignty must be scrupulously respected and nothing should be done that might directly or indirectly impair the foundations of treaty rights, once the latter are surrendered by the States, prudence no less than convenience demands that accomplished facts must be faced with the best possible grace. Hence, I fear, there can be no question of reversion of agreements which nearly 50 States signed with the Government of India. Kathiawar and Cutch stand on a completely different footing and the Government of India ought to spare no efforts to carry out the proposals for a compromise on the lines suggested above. The Government of India pay nearly 34 lakhs to Indian States; while the provinces receive nearly 31 lakhs, out of the total income from salt.

Income-Tax:—The first Peel Committee placed the Income-Tax at the disposal of the British Indian provinces and provided that the Federal Government after collecting the tax and deducting the expenses of collection was to distribute it on principles to be determined later on. The representatives of Indian States insisted on the maintenance of solvency of the Federal Government, and in deference to the wishes of the States, a substantial modification was made in the original proposals. Lord Percy's Federal Finance

Committee pleaded strongly for financial stability at the centre; and the decisions of the Third Round Table Conference were embodied in the White Paper, which stipulated that the provinces should have not more than 75 p. c. of the income-tax. These proposals were substantially modified, and we have the final result in section 138 of the Act. The Niemeyer Report recommended that part of the income-tax which can be placed permanently at the disposal of the provinces should be fifty per cent. Sir Otto was also called upon to fix the duration of the transition period under section 138 (2) (a) and he decided that it should be five years. He added:— "A term of about 5 years would safely cover the period during which the Centre would be consolidating its position after undertaking the initial adjustments", and this is the length of period which he recommended to be prescribed under section 138 (2) (a). Finally, he had to fix the percentage which should be allotted to the provinces during the transition period. The report accordingly laid down that the prescribed sum which during the period the Centre may in any year retain out of the assigned 50 per cent shall be the whole or such sum as is necessary to bring the proceeds of the 50 per cent share accruing to the Centre with any general budget receipts from the Railways up to 13 crores whichever is less." The different forms of assistance from the Central revenues proposed in the Report are:—

(1) Cost of subventions to deficit provinces. The Percy Committee must be given the credit for a very clear discussion of this problem

and for its solution. It pointed out that there are some Provinces which must remain permanently deficit provinces, and if they are to start on an even keel, it is essential that the Federal Government should give a subsidy to such units. Orissa is a classical example of such a province. There is no possibility of this province standing entirely on its legs. There are other provinces which need special assistance before they can embark in calm and clear waters. These are Sind, United Provinces, Behar, N.W.F Province and Bengal. The cost of subventions to the U.P., Assam, Frontier Province Orissa and Sind are 25, 30, 100, 40 and 105 lakhs of rupees respectively.

(2) Fifty percent share of duty of jute based on figures in paragraph 22 of the Report Bengal gets Rs.168 lakhs, Behar 10, Assam 9 and Orissa 1 (one) lakh as a result of this proposal.

(3) Sir Otto also proposed an extra 12½ per cent duty on jute to be assigned to jute producing provinces and here again Bengal gets 42, Behar 2·5, Assam 2·35 and Orissa 0·25 lakhs.

(4) Benefits from Debt adjustments. The benefit varied from 26·2 for Madras to 33 lakhs for Bengal.

(5) Finally, the prospective share which will accrue from income-tax in full after ten years, on the assumption that the amount

surrendered by the Central Government will be 6 crores. Here again Bengal scores heavily, as she will have 120 lakhs when the amount to be placed at her disposal after ten years, is fully realised. Bombay will have the same amount.

Let us now summarise the financial position of provinces as a result of the Niemeyer Report. Bengal will be the biggest gainer, as she will receive Rs. 363 lakhs a year. Next comes Bombay with 224·5 lakhs; then Madras with 136·2 lakhs a year. The greatest sufferer is the Punjab, which will receive only 49·7 lakhs a year.

I have given this summary to show the great responsibility which the Federal Centre has assumed for the financial stability and solidarity of the British Indian units. Representatives of Indian States have urged that this amount will be paid out of the federal fisc to British Indian units and they have complained that it is unjust and unfair to take such a large amount out of the common pool, and earmark it for a favoured and pampered unit. To this, it may be replied that the ideal federal system would be one under which all federal units would contribute on an uniform basis to the federal resources. The subsidies and other concessions given to deficit provinces will be mainly paid out of the income-tax which will be levied only in British India, and Indian States have no valid reason for their objection to this arrangement. The aim which the framers of the constitution kept constantly in

view was that all the units of British India should start this experiment on an even keel and the Niemeyer Report is an attempt to transmute this principle into administative efficiency and vigour. I was a very keen advocate of the original recommendation of the first Peel Committee and fought strenuously for them at various places and on numerous occasions. I have, however, no hesitation in confessing that the solution suggested by the Niemeyer Report offers a much better prospect of a satisfactory settlement of an exceedingly complex issue. It is inevitable that some provinces should feel aggrieved over the share of income-tax and other concessions which have been recommended under the Niemeyer Report. I feel that Bengal and Bombay have been unduly favoured, while agricultural provinces, such as the United provinces and the Punjab, have received step-motherly treatment. However, we must not look at this problem through spectacles made at Lucknow or Lahore, but from the point of view of an Indian whose narrow provincialism is promptly discarded when he is called upon to judge any issue from an All-India angle.

I may refer here to a few other sources of federal revenue. We cannot forecast the income which the Federal Government will derive from State lotteries or succession duties. A small amount will certainly be raised out of taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies. Nor can we ignore the income which the Federal Government may derive from taxes on the capital of companies. There is no

provision in the Act for the distribution amongst units of the revenues from this list.

Let me refer to another item which I mentioned earlier. Item 59 refers to "fees in respect of any of the matters in this list, but not including fees taken in any Court". This is a perfectly just claim on the part of the Federation, as it is only fair that the fees which are incidental to the imposition of any tax should be appropriated by the Federal Government.

Having finished this brief survey of Federal sources of revenue, I shall deal with some problems of Indian States which arise out of the Act of 1935. I feel that students of the constitution have paid insufficient attention to the issues raised by the Report of the Davidson Committee, nor have the solutions suggested by the Committee of a number of these issues been accepted by the States as a whole. The Committee dealt with subjects of extreme complexity and delicacy, and it was inevitable that their recommendation on specific items should arouse keen controversy and considerable apprehension in certain States. It aimed at exploring the financial problems arising in connection with certain individual States in the light of paragraphs 46 and 47 of the Third Report of the Federal Structure Committee, and it was called upon to decide how far and in what respects the ideal of federalism is affected by two particular items in which the Indian States are vitally interested. There are varying measures of privileges and immunities enjoyed by certain States, in respect of customs and salt, and in

the second category, may be grouped cash contributions and value of ceded territories. The Committee was called upon to advise whether cash contributions should be immediately reduced or eventually extinguished; while, in the case of ceded territories, it was asked to advise the Government as to the amount of compensation which it would be worth while for the Federal Government to offer in return for the relinquishment of the special priviles ges which each State enjoys, or such modification thereof as may appear to be an indispensable basis for the Federation.

I cannot go into the details of classification adopted by the committee in its treatment of cash contributions. Most of them will be found illustrated in the treaties, engagements and sanads by Aitchison, and were the logical results of the principle of Subsidiary Alliances which was first formulated by Lord Wellesley and extended later on. Wellesley wrote to the Resident at Hyderabad on February 4, 1804. "The fundamental principle of the Governor-General's policy in establishing a subsidiary alliance with the principal States of India is to place those States in such a degree of dependence on the British power as may deprive them of the means of prosecuting any measures or of forming any confederacy hazardous to the security of the British Empire, and may enable us to preserve the tranquillity of India by exercising a general control over these States." I do not wish to trace the growth of this system, nor will I deal with the different phases through which their

independent and sovereign existence merged imperceptibly into dependence. In the treaty with Datia, we find for the first time, the omnious word "obedience"; while the aggressive policy and martial ardour of Lord Hastings converted this alliance into "subordinate isolation" in 1813. Then followed the policy of "peaceful penetration" till the Mutiny of 1857. The position of the Crown was consolidated after the Mutiny, and we find the perfect expression of this new policy in the letter of Lord Reading to the Nizam in 1926. I have referred, in the briefest possible manner to a subject which has been exhaustively dealt with by many champions of Indian States. The development of the doctrine of Paramountcy which crystallised in the famous saying of the Butler Committee: "Paramountcy is Paramount" has been marked by a phraseology which is reminiscent of the rarefied technique of the League of Nations. Its chief characteristic is-an imposing array of comprehensive phraseology, a deliberate and calculated attempt to avoid precise definition, and a serious resolve to keep it as flexible, elastic and nebulous as possible.

The cash contributions cited by the Davidson Committee had their origin mainly in the period of anarchy and disorder into which a large part of Northern India was thrown by the lack of a vigorous central Government. It would be a fascinating study to trace each treaty to its source, to account for the incident and accident of some of the most stringent provisions of such treaties. and to prove that in many cases the military aid promised

to the States was not always rendered in times of need, while the presence of subsidiary troops tended to extinguish all honourable spirit among the higher classes of society and to degrade and impoverish the whole people. (Munro to Hastings in 1817). Whatever may be the moral and material consequences of the principles of paramountcy in the past, it cannot be denied that the payment of tributes by the Indian States is inconsistent with the rudimentary principles of federation. The First Peel Committee stated in paragraph 18, "We think that there is, generally speaking, no place for contributions of a feudal nature under the new Federal constitution, and only the probability of a lack of federal resources at the outset prevents our recommending their total abolition. We definitely recommend that they should be wiped off *pari pasu* with provincial contributions." They recommended that any contribution which is in excess of five per cent of the total revenues of a State should be remitted at once. The Davidson Committee recommended the abolition of all contributions comprised in certain specified classes. The contributions that would remain, after these four classes have been eliminated, would be those which had been fixed on the creation or restoration of a State or on regrant or increase of territory. A typical example of this class is represented by the case of Cooch Behar whose Raja agreed in 1774, as the price of delivery from Bhutan, to pay half the annual revenue of his State for ever to the British Government. This was later on commuted for a fixed annual premium of Rs. 67,700 in 1780. Benares affords another instance

of the same class. On its creation, or rather restoration, in 1911, the State undertook to pay a cash contribution calculated on the absis of the loss of revenue involved in handing over the sovereignty to the Maharajah. The other two classes of tributes are represented by contributions acquired by the conquest or lapse of the original States. This group comprises the largest class, while, in the last class, contributions were acquired by treaty. This class comprises 37 tribute-paying States situated in Behar, Orissa and the Central Provinces.

The recommendations of the Davidson Committee will give to the States a relief of Rs. 12 lakhs. There would still remain tributes amounting to not less thans Rs. 63 lakhs a year. If the local corps which are maintained by some Indian States, are disbanded, the net amount payable to the Government will be reduced from Rs. 63 lakhs to 53 lakhs a year.

The formula which will be applied by the Crown for financial adjustment between the States and British India on their entry into federation is indicated in section 147, which provides that His Majesty may, in signifying his acceptance of the Instrument of Accession of a State, agree to remit over a period not exceeding twenty years from the date of accession of the State to the Federation, any cash contributions payable by that State. No contribution shall be remitted by virtue of any such agreement in so far as it exceeds the value of any privilege or immunity enjoyed by the State; and, what is most important of all, in fixing the amount of any payments in respect of ceded

territories, account shall be taken of the value of *any such privilege or immunity.* I have not given a detailed account of the immunities and privileges enjoyed by the States; as it is impossible to deal with such a vast subject in a few lines. The question of ceded territories, which loomed large in the movement initiated by the States advocates in 1929, was also discussed, and the Davidson Committee investigated this problem in the course of its peregrinations. But the difficulties inherent in such an inquiry were acutely felt by a Special Committee which had been appointed in 1931. The material collected by this committee was enormous and those who have waded through this mass of facts and figures and discussed it with the members know how difficult it is to calculate the value of territories ceded nearly a century ago in terms of the year 1932 when the Committee framed its proposals. These territories were ceded on the understanding that the net revenue or surplus of a ceded district should be sufficient to defray the cost of a stated number of troops. The difficulties inherent in the calculation of value of a territory ceded nearly hundred years ago are patent to all. At that time, land tax was the mainspring of the States' revenue while administration was confined to the task of maintaining law and order. It was essentially a Police State, putting down rebellion and riots with stern hand, meeting out exempalry justice, and ignoring the clamant demands of a highly organised Government with a supineness which bordered on the ridiculous. The land revenue has increased considerably since assessments have piled up, and receipts from other sources

form 50 to 60 per cent of the income of a province. Nation building departments have grown rapidly in their range, influence and volume, and nation-building activities absorb a large part of the State's income. Canons of financial propriety have undergone almost a revolutionary change, and an administration is exceedingly lucky if it is free from debt. Surplus in almost all provinces is a rare virtue, and a province ought to congratulate itself if it succeeds in balancing its budget. Most important of all, the requirements of modern defence have entirely changed the medieval methods of warfare current about 150 years ago. The army has been mechanised and the air arm has added new terrors and new problems to the harassed governments. Nor is this all. The territories were ceded at a time when the boundaries of States were in a fluid state and it is exceedingly difficult to reconstruct the history and locality of villages after a lapse of hundred to 150 years. Even if the ceded territories are identified, the supremely important problem of valuation of these territories remains there. How are differences in financial standards, military efficiency and increase in the range and volume of State activity to be measured in terms of present day rupees? How is it possible to set up an objective standard, and apply it uniformly over the heterogeneous collection of villages which may have been visited by natural calamities or administrative supineness since the cession? The Davidson Committee did not use the results of the Special Committee in their valuation of ceded territories and recommended that the following annual credits

should be allowed in respect of the territory ceded by the undermentioned States.

Baroda: 22·98 lakhs; Gwalior: 11·78; lakhs; Indore 1·11; lakhs and Sangli 1·10 lakhs.

They recommended that the annual credits proposed by them for these States should become effective in adjustments with the States in question *pari pasu* with the reduction of the contributions to be paid by the Provinces to Federal revenues. The Hyderabad State intimated that the military guarantees for which it ceded territories may continue in being, and it, therefore, required no such credit. Berar was expressly excluded from the terms of reference of the Davidson Committee. The Committee's method for effecting financial adjustments with Indian States was simple. The debits of one State could not be set off against the credits of another. Moreover, certain States have only credits and others only debits to their account. Again, while it is true that in an ideal Federal system there ought to be complete uniformity if not equalisation of burdens and profits; the circumstances of India are unique, as the units are not homogeneous and show an extraordinary variety in area, population, wealth and cultural level. It is conceded by all that Federal authority can be exercised only in a limited sphere, and State units will maintain their authority and sovereignty in non-federal spheres. Finally, the recommendations of the committee will apply to those States which elect to enter the Federation. I do not propose to deal with other immunities and

privileges which are enjoyed by States, as they are not of considerable importance, and are too long to be quoted in this paper.

Every impartial person who surveys the work of the Committee must confess that the members worked with great industry and applied themselves to the task in a bold and courageous spirit. There are, naturally, numerous proposals to which strong objection has been taken by many Indian States, and it must be admitted that the requirements of the Committee's time-table did not always synchronise with the need for a patient and careful consideration of the case of many Indian States. On the whole, they were free from the prejudices which are consciously imbibed by persons whose mind works in a certain groove, owing to the traditions and peculiarities of their service. Everyone must admit that without a solution of the main problems which the Committee set out to solve, the prospects of Federation would have been exceedingly remote, and the plan might have receded into the background. No Federation can be stable unless its administrative machinery works with irresistible potency and effect in spheres which are regarded as essential for a Federal Government. If a unit federates only for a few unimportant subjects and reserves its sovereignty over all the essential elements of the federal structure, its foundations will be on quick sands and its stability will be of stubble. It will lack the momentum and energy of a powerful executive and will be dependent for its existence on the ideology of opportunity. It will

disintegrate into tiny fragments and will be devoid of effective sanctions, and the moral energy and creative vigour which are prerequisites of all governments. The Committee stated that "If after every adjustment has been made and every consideration which we have mentioned, has been taken into account, there is still a substantial balance against British India, even this is not the last word. By the very fact of their entry into Federation, the States make a contribution which is not to be weighed in golden scales". It was inevitable that in deciding these issues, they should have encountered concentrated opposition from many quarters. The opponents of the federal scheme did not hesitate to call their recommendations a bribe to States; while the fervent advocates of British Indian interests felt that the tax payers in British India will be called upon to pay subsidy of nearly a crore of rupees a year in order that he my keep his hesitating and coy partners comfortable, happy and gay. The States themselves were not satisfied with the principles of valuation fixed by the Committee, or with the method adopted by the members in their hurried and precipitate interviews with State officials, etc. Moreover, the Committee was not able to suggest an immediate solution of the vexed question of sea-customs, ceded territories and other issues. The States were not willing to be rushed into rash measures and wild promises, and flatly refused to declare promptly their opinions on several intricate issues which were and are, at once a source of considerable profit, and an emblem of their sovereignty. If we look at the

problem from the view point of a scientific student, we will have no hesitation in declaring that the solution of the issues discussed by the Committee was vitally necessary for the new Federation. It must be admitted that in their recommendations they struck the balance slightly in favour of Indian States. The policy of hesitation and delay adopted by the States was natural as the federal scheme is undoubtedly a leap in the dark, and one can appreciate the standpoint and sympathise with the natural hesitation of internally independent States to enter a scheme which postulates sacrifice of a partof their sovereignty. It is inevitable that States which have been reared in an atmosphere of sturdy independence and clung to their rights with great tenacity and energy, should hesitate to navigate in an uncharted sea.

I have given only a brief, and I am afraid, a sketchy survey of an exceedingly difficult problem. What are our general conclusions on the financial arrangements of the federation ? It will be best to take the credit and debit side of our account and marshal the arguments advanced by protagonists of the two parties as clearly as possible. The first and foremost objection which is frequently urged by British Indian Delegates is that the Indian States have been treated with extraordinary leniency. The British Indian tax-payer will, it is said, be called upon to shoulder the onerous responsibility of financing the federal structure, and the States will contribute only a small fraction say, four to five per cent, to the normal revenue of the Federal Government. They will not contribute their legitimate quota even for the customs duties. It is true

that the federal government will impose upon them export duties, excise duties, salt and corporation tax after ten years, but the proportion which the income from these taxes bears to the total revenues of the federation, is so small that it can hardly exceed, five per cent. The States will not be called upon to pay taxes on income, and taxes on the capital value of individuals, assets or of companies. On the other hand, it must be pointed out that the States will be required to bear their share of the extraordinary taxation to which almost every Federal Government has been compelled to resort, besides surcharges on stamp duties in respect of Bills of Exchange, cheques etc. It is true that the surcharges are not likly to yield a substantial revenue, nor will the proportion of States' share to the total revenue from these sources be considerable. On the whole, it must be admitted that the amount contributed by the States will be relatively small. I have stated the view of the British Indian tax-payer with considerable frankness, as I feel that this issue bulked large in our discussions for four years in London, and the traditional prejudices of the protagonists on both sides seriously vitiated the discussion. The States' contention is that their contribution to the federal fisc is in exact proportion to their population and this proportion will go on increasing until the Federal Government has been inaugurated They meet the main objection of British India by pointing out the direct and indirect ways in which they contribute to the defence of India. In the first place, the total expenditure of States on their army is not less than two crores per year; in the second place, they ceded

valuable tracts of land which are now paying substantial revenues in return for guarantees of military protection; in the third place, they contribute through the incidence of indirect taxation arising from maritime customs, salt duties, etc., levied by British India; and lastly, some States maintain highly efficient forces which did brilliant work during the great War, and can be embodied in times of war in the national army.

I have thought it necessary to analyse the main arguments advanced by protagonists on both sides, in order that the issues may be clarified. I feel that it is difficult for the most impartial and scientific student of this problem to maintain an attitude of complete detachment in discussing this problem; and it is probable that I myself suffer from a prejudice in favour of British India. I submit, however, that this issue can only be discussed in a spirit of compromise and give and take; and judged entirely from this standard, it must be admitted that the States will bring into the Federation a freshness of outlook and a capacity for handling the practical problems of administration, which will prove exceedingly useful to the representatives from British India. The representatives of Indian States are likely to be men of practical ability, well-versed in the intricacies of administration and intimately conversant with the needs and requirements of their areas. Again, it must be confessed that in determination of the economic and fiscal policy of Central Government, Indian States have rarely been consulted: they have so far been the *Cinderella* of the Central administration. The History of the Viramgam

line and the negotiations of the Government of India with the maritime States show how many of these difficulties could have been avoided if Indian States had their representatives in the Central Government. Again, we must lift the question of Indian States contributions to a higher plane and evaluate their entry into the Federation in terms of national solidarity, and national unity. Dreams, visions and ideals cannot be expressed in the language of the stock exchange, and the price paid by a united India for these "favours" to Indian States will be so small as to be almost negligible.

Let me deal with a few points which have aroused controversies:—

Revenues of the Federation. Section 136 states that the revenues of the Federation include all revenues and public monies raised or received by the Federation and the expression revenues of the Province includes all revenues and public monies raised or received by the Province. The States are not included in this definition, and this seems to me to be perfectly fair, as the States retain their sovereignty except in certain specified spheres, and it would be a violation of their treaties, if their revenues had been pledged by a Federation which has no power over the resources of a Federated State. The Provinces, too, have been given wider powers. section 162, defines the scope of these powers while section 164 provides for loans by the Federation, or gives guarantees in respect of loans raised by the Federated States. This will certainly help the Federated States, though it is a moot point whether

extended facilities to some States will not increase the temptation to borrow unnecessarily. There are States which are a model of financial propriety, and I should be pardoned if I particularly mention Baroda. On the other hand, there are certain States, which have mortgaged a substantial proportion of their revenues to the Federal Government; and it is not certain whether these facilities will really prove a blessing to such States.

Let me here also refer to another point which has produced considerable confusion in the minds of some people. It is stated by some that the Federal List confers on the federation not only powers of Legislation and administration over the subjects comprised in the List, but also the power to levy a tax on all the items comprised in the list. This is a point well worthy of consideration, though the provision of the Act is explicit enough, and all the items on which taxation can be imposed are clearly specified.

I will conclude this lecture by referring to the vexed question of sovereignty. This has naturally aroused the apprehension of States, and it is not surprising to find acute anxiety mixed with suspicion in the minds of many States on the development of the federal executive. Lord Bryce compared the American federal system to a great factory wherein two sets of machinery are at work, their revolving wheels apparently intermixed, their bands crossing one another, yet each doing its own work without touching or hampering the other. The aim of

the framers was to keep the Federal Provincial Governments and States in their allotted spheres and to prevent collision and friction. The representatives of provincial Governments and States Governments in the Federal Legislature and the Federal Executive, will keep a vigilant eye on the working of the central Government. The federal Government is a government of delegated and specified powers, and the sovereignty of Indian States is supreme in the sphere in which it has not federated. The position was very clearly put by Sir Samuel Hoare in his evidence before the Joint Select Committee in 1933, in answer to Query No. 7,000. Sir Samuel said " The whole basis of our federal scheme is that we do not interfere in the internal management of States except to the extent that they have surrendered powers to the Federal Government." This is the basic principle which permeates the Act, and there is legitimate ground for suspicion and anxiety among States over the provisions of the Amending Bill which has recently been introduced in the British Parliament. It was accepted by all parties in the Federal Finance Committees of 1931 and 1932 that land customs constituted an important source of revenue for many States, and the latter could not be deprived of these rights without their consent. The attempt to amend entries 19 and 44 in the Federal List and to insert a new Section in the Act does impinge upon the rights of such States, and affects their income from land customs.

The relation between the Federal and States administrations were defined in paragraph 5, Head (B)

of the Report of the Third Round Table Conference. It provided that the constitution should recognise arrangements for the administration by the States on behalf of the Federal Governments of Federal subjects through the agency of staff and establishments employed and controlled by themselves, but that any such arrangements should be subject to conditions to be expressed in the constitution enabling the Governor-General to satisfy himself by inspection, or otherwise, that an adequate standard of administration is maintained. Section 125 of the Constitution Act was specially designed to reassure the States on the question of the exercise of their sovereignty in the administration of Federal laws. In fact, paragraph 5 referred to above, had recognised that the "relationship of the Federal Government with the States cannot be in all respects identical with that which will obtain in the provinces." Here, as in the United States of America, two parties will grow up, one advocating a strong central government and the other championing the rights of constituent units. We have been accustomed to the unitary form of Government in India for such a long time that it is natural for us to assume that sovereignty is undivided, and must be shared by one and only one body. Such a conception of the working of a federal government is fundamentally wrong. The States federate only for a few specified subjects and retain their sovereignty over the rest of subjects unimpaired. A federation postulates division of sovereignty, and an Indian State and a provincial Government will be as truly sovereign in their allotted spheres as the federal Government within the sphere specifically reserved

to it. It must also be admitted by all students of the constitution that the sovereignty of Indian States is inherent and not delegated. It is essential that Indian States should be reassured on this point, and the amending Bill in the House of Commons has raised a number of highly controversial issues which have seriously affected the attitude of the Indian States towards Federation. The Report of the Hydari Committee has not yet been published, but the summaries published in the papers tend to confirm the impression that the Bombay resolution of the princes was the logical result of the acute anxiety which many Indian States have felt regarding the implications of the Amending Bill, which has been wisely shelved for the present, and will not be discussed by the British Parlament till next autumn

In constructing a formative framework for a united India, we have to subordinate the claims of statistics to the nobler claim of a united patriotism, embracing India in her totality and universality, and bringing before us the vision of a mighty land. The cost to India of attaining national unity and solidarity is not too high for the realisation of a dream of twenty centuries. Many people in British India forget that a federal government has a natural tendency to expansion, which works irresistibly, without the knowledge and intention of the framers of the constitution. This has been found by Americans in the working of their constitution. The expansive force of the national Government has proved much stronger than the States of America, and this tendency has prevailed, not through conscious efforts, but through the inherent elements of strength which the Central Government

possesses. The constitution thus devised is not immutable and inflexible, and must be adapted to a constantly changing world, to new phases of thought and emotion, new beliefs in the realms of ethical philosophy and physical science. As the great theologian, Cardinal Newman, gracefully puts it:—" In the higher world it is otherwise, but here below to live is to change, and to be perfect is to have changed often". The Indian constitution is exceedingly young. It has not had time to settle into an environment or the environment to take it to its bosom. When it mobilises the dormant energy of our people and organises an effective machinery for our development, the issues of the Indian States' contribution to the federal fisc will seem petty, trivial and insignificant. I feel that the barren discussions in which the explosive energy of certain zealots seems to have been consumed, ought to give way to that spirit of moderation and faith which sustained the framers of the Constitution during the years of their toil. In estimating the value of any assets in a momentous enterprise, we must not be hidebound by narrow and lynx-eyed theories of finance. If we want a greater India, we must be prepared to pay a noble price for it. None can say that the price for such unity is too high. By this price, we shall make this great and glorious land of ours as great and powerful as any nation in the world. Let us have infinite faith in her destiny and let us march forward, melting and casting her varying strains into a single, solid ingot. We shall succeed only through unity and this must remain our passport. Amen!!