

# Popular Control in Indian Finance

By Y.G. Kale

English Pamphlet No. 1.

The General Secretarial Board of the District  
Congress Committees, Bombay.

## POPULAR CONTROL IN INDIAN FINANCE.

BY

Prof. Y. G. Kale, M. A.,  
*Fergusson College, Poona.*

---

servants of India Society's Home, Girgaon, Bombay.

---

**Price One Anna.**

POONA:

Printed at the Aryabhushan Press.

---

1916.

## The General Secretarial Board of the District Congress Committees in Bombay.

---

The Girgaon, the Bhuleshwar, the Mandvi, and the Byculla and the North Bombay District Congress Committees in Bombay have, at their respective meetings, decided to start Educative and Propagandist work on Congress lines in the City of Bombay and have authorized a General Secretarial Board consisting of all the Secretaries of the said District Congress Committees to carry out the work on their behalf. The programme as approved by the Committees, consists of public lectures on different political subjects, papers to be read by members on different problems of the Indian Administration, publication of Sir S. P. Sinha's Presidential Address in the vernacular and the starting of a small library of books on political subjects.

Members of the General Secretarial Board :—Mr. Velji Lakhamsi Nappoo, Mr. Husseinbhoj A. Lallji, Mr. Poonsey H. Meisheri, Mr. K. H. Kayani, Mr. M. Vassanji, Mr. Devji Raising Javeri, Mr. T. S. Nazim, Mr. Temuras D. Kapadia, Mr. Gulabchand Devchand J. Mr. Motilal Vallabhji, Mr. T. A. Kulkarni, Mr. Dhimant M. Vakil, Mr. W. T. Halai, Mr. J. K. Mehta, Mr. Laxman Das Haridas, Mr. K. N. Mahale, Mr. A. R. Gadkari, Mr. Nagardas Vatsaraj, Mr. Nanabhoy F. Mama, Mr. I. Azad, Mr. S. S. Persha, Mr. C. B. Lalaye, and Dr. I. Govande.

Secretaries, General Secretarial Board :—Mr. U. Trivedi and Mr. N. M. Joshi (Servants-of India Society).

Treasurer, General Secretarial Board :—Mr. M. C. Vallabhji.

**POPUL**

IN

## **INDIAN FINANCE.**

---

**An Address by Prof. V. G. Kale.**

Under the auspices of the District Congress Committees in Bombay, Prof. V. G. Kale of Fergusson College, Poona, delivered an address on 9th March, 1916, at the Empire Theatre on "Popular Control in Indian Finance." The Hon. Mr. Chimanlal H. Setalvad presided. Prof. Kale said :—

Though at a great distance from the theatres of the terrible war now being waged in three different continents, we, in India, have been making, in our humble way, our contribution to the prosecution of the struggle with the enemy and have been feeling the effects of that struggle more or less directly. The budget now before the Viceregal Council, has been very properly called a War Budget, and the additional taxes which have been imposed are calculated to bring home to every one of us the fact of the dreadful war. The annual financial statement for the Indian Empire does not usually attract much popular attention, and fresh taxation having been imposed only once during the last twelve years, the budget comes and goes without disturbing the equanimity of the common citizen. Though the financial statement presented to the Viceregal Council by the Hon. Sir William Meyer a week ago, is a document of absorbing interest, I do not propose here to-night to criticise it. I wish to place before you a few considerations of a general character concerning the Indian system of finance as a whole and, to invite your attention to certain salient features of that system.

There are two important points which must be noted in connection with the finance of every nation, viz. (1) the machinery of collecting and spending revenue and of keeping accounts and (2) the control of that financial machinery. As to the first point, it must be frankly observed that our method of collecting and spending taxes has been highly developed during the past fifty-five years since Mr. Wilson was called upon to place our finances on a sound basis. The system of Provincial finance and the state of the financial relations between the Government of India and the Provincial Governments, are, no doubt, far from satisfactory, and important and even drastic changes are necessary in this direction. But the mechanical side of our finance is excellent. Estimates are correctly made and accounts properly kept, and a succession of very able Finance Ministers,—men like Wilson, Laing, Strachey, Colvin, Barbour and Sir Guy Fleetwood Wilson,—have steadily improved the organisation of Indian Finance. It is not of this aspect of finance that I want to speak to-day but mainly of the method in which the financial machinery is controlled.

#### THE POWER OF THE PURSE A TEST OF PROGRESS.

The machinery of a nation's financial administration may be excellent and very efficient as is that of India. But we must inquire, who directs and controls the working of that machinery? This a question of very great theoretical and practical importance. In every self-governing nation, it is the people through their representatives in the legislature, that exercise full control over national finance. It is they who ultimately determine what taxes shall be levied and how the revenues that are raised shall be expended. They vigilantly supervise how money voted by them is spent and how the accounts are kept. The undisputed power over the national purse is a highly

cherished privilege of the people which has been acquired after a long struggle and is a distinguishing feature of the modern state. In financial, as in other matters, the legislature is supreme, and the executive is absolutely subordinate to it. It was not always so. In former times, the chief or the monarch levied what taxes he liked and spent their proceeds in any manner that he chose. The history of England is an interesting record of the persistent struggle of the people to obtain the control of national finances, and even in the Magna Charta, King John swore that 'No scutage or aid shall be imposed in our kingdom unless by the general council of our kingdom.' The people of England proved victorious in the struggle, and however the systems may vary in the different countries, they have, in substance, followed the British example. Control over national finance is, indeed, a test to-day, of the constitutional progress of a people, and judged by that standard, India is very far from the goal. The British system of finance bears traces of the old struggle even to-day and some of its features which appear to us superfluous, only demonstrate the jealous vigilance of the people over the management of national finance. It is, again, the House of Commons, which truly represents the people, that has monopolised this power over the purse of the nation, and in this connection, the Upper Chamber is an ornamental rather than a useful part of the constitutional machinery of Great Britain.

In the remarks made by Sir William Meyer in introducing his recent financial statement, concerning the inability of the Government of India to propose an increase in the import duties on cotton piece goods, along with the general enhancement of the customs duties, faithfully reflect India's position in this respect. The Finance Member observed:—"The Council will naturally ask why, at a time when fiscal necessities compel us to make

a material enhancement of the tariff in nearly every other direction, we should leave cotton alone. Well, the Government of India have not failed to represent their view that there should be a material increase in the cotton import duties while the cotton excise, which has formed the subject of such wide-spread criticism in this country, should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position from a wider stand-point, felt that the raising of this question at the present time would be most unfortunate as it would provoke a revival of old controversies at a time when they specially desired to avoid all contentious questions both here and in England." Nothing can be more unconvincing than the argument put forward by His Majesty's Government. We want more revenue to meet the exigencies of the war, and one of the most eligible sources is the customs duties on cotton piece goods. There was no occasion here for any controversy and the sermon preached to the Government of India might have been more appropriately addressed to Lancashire who would have clamoured against the enhancement of import duties. His Majesty's Government may be right or they might be wrong in their attitude towards the cotton duties. The fact is there that the Government of India is not a master in its own house, and the people of India are nowhere in the determination of financial dispositions pertaining to their own country. When the Government of India was transferred to the Crown by the Act of 1858, the Crown became responsible to the British Parliament for the administration of the finances of this country. Section 2 of this Act lays down:—"India shall be governed by and in the name of His Majesty. And all rights in relation to any territories which might have been exercised by the said Company if this Act had not been

passed, shall and may be exercised by and in the name of Her Majesty as rights incidental to the Government of India; and all the territorial and other revenues of or arising in India and all tributes and other payments in respect of any territories which would have been receivable by or in the name of the said Company if this act had not been passed, shall be received for and in the name of Her Majesty and shall be applied and disposed of for the purposes of the Government of India alone subject to the provisions to this Act." In theory, Parliament controls the Secretary of State for India who represents the Crown, in the management of Indian affairs, and he controls the Government of India, that Government in its turn, controlling the Provincial Governments. While these last are subjected to very stringent control, and the Secretary of State hampers and coerces the Government of India, *popular control* there is none over any part of financial administration. Parliament, as everybody is aware, is indifferent and this is strikingly proved by the oft-mentioned fact that the speeches during the Indian Budget debate in Parliament are often addressed to empty benches. And the Secretary of State's control, like that of the Government of India, is official control and not popular control. The Indian executive is, therefore, indirectly responsible to the people of Great Britain and not of India, who are directly interested in the management of the finances of their country. It is a curious anomaly that those who have to pay the piper, cannot call for the tune, and whatever control is exercised over the Government, must come from outside.

#### HELPLESSNESS OF LEGISLATIVE COUNCILS.

But you will ask, are there not our Legislative Councils, which discuss the budgets and pass important



resolutions and is not that a method of exercising control over the executive? As the Chairman will tell you, the representatives of the people in our legislative assemblies may discuss and make suggestions, but they cannot modify the budget placed before them by so much as a pie. In England, not a farthing can be raised or expended by the executive Government without the authority of the people, and the funds appropriated for a certain purpose can not be diverted to another without the assent of Parliament. An English writer, describing the British system of finance, observes:—"But every penny that is spent is collected and spent under the authority of some Act of Parliament, permanent or temporary. In the matter and manner of getting and spending, the executive is wholly subject to Parliament and has not power to move a hair's breadth beyond the powers which Parliament entrusts to it".\* The accounts are also carefully audited by an independent officer who reports directly to Parliament. But for the Government of India, the Budget is not a binding instrument; it is only a voluntary expression of anticipated expenditure which they may afterwards abide by or not, according to circumstances or their own discretion. The divergence of expenditure from budgetary provision may be a matter for criticism; but is of no constitutional importance. Popular criticism may indirectly affect the financial policy of the executive but the latter is not directly responsible to the people. In the matter of the auditing of accounts, the British people are very particular, the accounts being subjected to a very minute and strict scrutiny. The auditor of British accounts is an independent official and submits his report directly to Parliament which has also its Public Accounts Committee entrusted with similar or almost parallel duties. The question of adopting the English system of audit in this

---

\* "The system of National Finance" by E. Hilton Young.

country, where the Comptroller and Auditor General is not an independent functionary, who may report irregularities to the Imperial Legislative Council, has often been mooted in the past, and was discussed by the Welby Commission in detail. But the Commission felt satisfied ultimately, that the Indian system worked well, on the whole, and required no modification. The Government of India was, besides, opposed to the institution of a system of independent audit on the ground of the heavy expense it would entail.

Before the year 1892, even the present system of the discussion of the Budget did not prevail. By the Council Act of 1861, the Legislative Councils could discuss only such measures as came before them in the form of Bills. For the various taxes and duties legal enactments were necessary and they were open to such discussion as was possible in the absence in the Councils of the elected representatives of the people. By the Act of 1892, the representative element was introduced and a general debate was allowed on the Budget. The discussion of the Financial Statement and the asking of questions, were subject to strict restrictions and the Act laid down:—"But no member at any such meeting of any Council shall have power to submit or propose any resolution or to divide the Council in respect of any such financial discussion, on the answer to any question asked under the authority of this Act, or the rules made under this Act." The Act of 1909 went one step further. The Councils were still further expanded, and the right of moving resolutions in the matter of financial arrangements was conceded to members. It must not be forgotten, however, that these resolutions even when they pass by majority, are of the character of mere recommendations which the Government may accept or not. In their Reform Despatch of 1908, the Government of India laid particular

stress upon the condition that the resolutions should be in the form of recommendations to the Government as indicating that the power of passing the Budget is vested not in the Council but in the Executive Government. The Despatch says :—“ We are clearly of opinion that it is advisable that the Council should be afforded increased facilities for expressing their views upon the budget, and that these facilities should be given at a sufficiently early stage to enable the Government to take advantage of any advice that may be tendered and to adopt and give effect to such suggestions as may be found practicable. The ultimate control must, however, rest with the Government, and no useful purpose would be served by affecting to ignore this essential fact. It is the Government and not the Council that decides any question arising on the Budget, and the utmost concession that can be made is to give the Council ample opportunities of making recommendations to the Government in respect of particular items.”

The Despatch goes on further to state :—“ The Council would divide on any resolutions that were pressed and the result would be duly recorded. But the Government would not be pressed to take any action upon any resolution, either in whole or part. Power should be vested in the Chairman to close the discussion upon any head or group, when he thinks that it can not be continued with advantage and there should be a time limit for individual speeches. Here, as in paragraph 62 above, we desire to lay stress on the condition that the resolutions should be in the form of recommendations to the Government as indicating that the power of passing the Budget is vested, not in the council but in the Executive Government. This is not a mere verbal refinement; it denotes a constitutional fact and it has the further advantage of avoiding any objection that may be taken to the scheme on the basis of the English

rule that all proposals for the increase of expenditure must be initiated by the Crown. If it is necessary for us to support our proposals by a reference to Parliamentary practice the requisite analogy is to be found in the right of the House of Commons to submit an address to the Crown recommending certain expenditure." The constitutional position of the Government and of the Legislature, could not have been described more clearly and emphatically than it is in these words. The Government of India relied in this connection on the British system under which proposals for the increase of expenditure must be initiated by the Crown but it did not take into account the important fact that the British Parliament has the power to vote supplies and can make and unmake ministries. A Government has to resign or give up its proposals if Parliament refuses to sanction them.

#### STRONG PRACTICAL REASONS FOR CHANGE.

It is, no doubt, true that even in democratic countries the executive is very powerful and on account of the existence of political parties and other causes, popular control is often ineffective. But, after all, the proposals of the executive are backed up by the opinion of the majority in the legislature, and as the people ultimately make and unmake Governments, the latter are responsible to the nation. Apart from the theoretical aspect of the problem, there are strong practical reasons why the executive in India should be amenable to the control of the people.

- (1) In the first place, however capable and efficient the executive may be, it is not endowed with imagination and must lack the enthusiasm necessary for all true progress ;
- (2) the administration of India being purely official, there is a natural tendency towards increasing expenditure ;
- (3) much of Indian expenditure is incurred in England and for purposes to which people attach but subordinate importance ;
- (4) finance is a powerful engine to bring

about the moral and material progress of the people, and unless Indians themselves control expenditure, revenues will not be expended upon measures of urgent importance to the country ; (5) in the absence of popular control public criticism of the Government's policy becomes irresponsible. That is one of the reasons why facilities are now given for the discussion of the budget in our Councils. These discussions, however, become unreal and lifeless owing to the consciousness of the critics of Government that the executive is supreme and they are powerless to regulate the financial machinery. Many non-official members of our Legislative Councils, have recently given expression to a sense of disappointment at their utter helplessness to achieve anything tangible in those assemblies. If a sense of responsibility is lacking in the criticism of non-official members, it is not their fault. They are excluded from all real power, and so long as they have no statutory control over the executive, there is little likelihood of this state of things being improved. If popular control were provided, many important and beneficent schemes, like the diffusion of education, may be undertaken and the people would cheerfully submit to heavy taxation necessary for the purpose.

The history of the expansion of railways, of the prosecution of wars on and beyond the frontiers, the imposition of cotton excise duties, the enhancement of the land-tax, the growth of military expenditure and of other features of the Indian financial system, shows how great is the need of popular control over finance in India. The whole problem was examined by the Welby Commission, a majority of which was, however, satisfied as to the sufficiency of our existing financial control. Some of its members did feel that an independent audit like that in England was wanted in India and felt the injustice that was done to India by her being saddled with expenditure

in which she was not directly interested. The growth of expenditure in recent years, the costliness of our administrative machinery, and the inadequacy of the funds required for the prosecution of schemes of reform, point to the need of our people being effectively associated in the management of India's finances.

In every other country of the world the people hold the strings of the national purse in their hands. In several of them expenditure on armaments has grown enormously, but at the same time large schemes of social amelioration and national advancement have been and are being taken in hand. The extravagance of Lloyd-Georgian finance is often made the target of cheap criticism in the Tory and Anglo-Indian press. But if he has increased national expenditure and the burden of taxation upon the rich classes, Mr. George has inaugurated schemes of social amelioration which are calculated to promote national well-being. Democratic control may have failed in certain nations, but by common consent, popular government is considered the best form of government. And what is good for other countries, for Great Britain and the self-governing Colonies, must also be good for India.

#### REFORMS NEEDED.

The reforms introduced in 1892 and in 1909 have proved the capacity of the Indian people for self-government and they can be trusted to take further strides in the path of progress. Not the most prejudiced critic of the representatives of the people in our Legislative Councils, can say that they have not shown capacity for their work. The evidence is all the other way. The time has, therefore, come when (1) financial autonomy should be granted to India, and the Indian people should be allowed to order their house according to their own needs and wishes. (2) the Government of India ought to be freed from the shackles imposed upon it and should be free to frame its

own budget without being dictated to by the Secretary of State ; (3) the people of India must have an effective voice in the administration of their national finance ; the members of the Councils must be given the right to vote the national expenditure and the executive must be made responsible to the Legislatures, the bulk of which would consist of elected Indians ; (4) provincial finance will have to be reorganised and placed upon the basis of independence, and local finance too will have to be modified ; the voice of the people must be supreme in the Provincial Councils also, which may then levy Provincial taxation ; and (5) Indian finance must be placed upon a federal basis. The existing system of Provincial finance is extremely unsatisfactory. It is well-known that certain charges and revenues have been handed over by the Government of India to the Provincial Governments, but the latter find their revenues inadequate. The progress of the people under their immediate charge requires more funds ; but they have no power of independent taxation. The Provincial Governments are, in fact, chafing at the restrictions imposed upon them by the Supreme Government. The latter contends that as it is responsible for the good government of the whole country, it can not divest itself of the powers it enjoys ; and that it has to regulate, to co-ordinate and to control. It is averse to making any radical changes in the system of Provincial Finance which is a growth of 45 years and it is trying to adjust it to changing conditions and pressing demands. Provincial finance does not stand upon any regular principle and the division of resources among the various Provincial Governments is considered as inequitable. The Supreme Government acts upon the parental theory according to which it has to deal with the various Provincial Governments as so many sons, some grown up, others very young. The more developed Provinces, it is said, must help the less developed. The Government of India

has made its position quite clear in this respect. As regards the proposal that Indian finance should be placed upon a federal basis, it contends that the position of Provincial Governments in India is not analogous to that of the states which make up a federated state. Without going into great detail, it may be pointed out, that neither the Provincial Governments nor the people are satisfied with the present financial arrangements subsisting between the Government of India and the local Governments. And though the reform may appear to be radical, the problem has got to be boldly faced. The people will press the Provincial Governments more and more for liberal expenditure and those Governments must be given greater latitude. But this reform of decentralization must be accompanied by a proper provision for popular control over the Provincial Governments. The large question of the financial and constitutional relations between the Government of India and the Provincial Governments has been discussed pretty often, but there has been actually only a tinkering with it, the main issue being put off owing to its seriousness and complexity. At the close of the war there will come a splendid opportunity to decide this question, and British statesmanship must rise to the height of the occasion. The future of our people is bound up, with the proper management and control of the finances of the nation and India must be raised in this matter to the level of Great Britain and the Self-Governing Colonies. Our advancement must be along the lines of the progress of England and I hope there will be no hesitation in following those lines.

#### CHAIRMAN'S REMARKS.

The Hon. Mr. C. H. Setalwad said that Prof. Kale had laid them under a deep debt of obligation by giving them a very interesting discourse. He had pleaded



for popular control of finance. The speaker entirely agreed with him that they required popular control not only in finance, but in all branches of administration. He had been a member of the Legislative Council for many years and he could venture to speak with some knowledge and experience, and after all these years they had secured only the right of criticism and recommendation. Criticism and the right of recommendation were not to be despised, because the power of criticism had stopped many things from being done which would otherwise have been done. But that was not enough to carry on government on a popular basis. What he thought was required was that the Executive Government must be made subordinate to popular control. The efforts of the people of this country must be directed to secure popular control over the Executive Government. That was really the crux of the whole matter. What they did want was that the Executive Government as constituted in this country should be made responsible to the Legislative Council. In the Imperial Council they had an official majority, and in the Provincial Councils they had in theory a popular majority, but in practice whatever recommendation they might make and however they might appeal to the reason of the Council, unless the Executive Member got up and declared that the Government was prepared to accept it, there was no chance of any of the resolutions being passed. In the re-organisation which would take place after the war they must have elective majorities in the Provincial Councils and also in the Viceregal Council. Having got an elective majority the Government in their executive acts of administration must be made strictly responsible to the Council. By securing that they would be securing an advance on the proper lines. Unless they had popular control of administration, merely fiscal autonomy granted

to the Government was, to his mind, not an advance but a calamity. As it was, the Provincial Governments were controlled by the Government of India, the Government of India by the Secretary of State and ultimately by the British Parliament. By that means they had some control over the acts of the Government. If therefore any more power was given to the Government without any popular control, they would have then no control at all over the actions of the Government. Popular control must be first established. That was a question for which all must strive for when the reorganisation comes. On the manner in which they pushed that question further will depend on the advance of this country. He again thanked Prof. Kale for his lecture. (Cheers.)

---

## **Educative and Propagandist Work on behalf of the District Congress Committees in Bombay.**

---

In accordance with the resolutions of the District Congress Committees, the General Secretarial Board at their meeting held on 24th February 1916, has framed the following programme of work for the year 1916 and has made an estimate of the funds required to carry it out.

### **1. Public lectures :—**

It is proposed to arrange about a dozen public lectures in English and about ten lectures in vernacular languages—Marathi, Gujarati and Urdu—in the different localities of the City. It is estimated that the arrangement for these lectures will require a sum of Rs. 1500, including the rent of the theatres, chairs, printing of cards and postage.

### **2. Reading of papers to be followed by debates :—**

It is proposed that during the course of the year about twelve papers should be invited and read before the meetings of the members of the committees. Members will be allowed to take part in the debates which will follow. It is estimated that the arrangement for these meetings and the printing of the selected papers will cost a sum of Rs. 600.

**3. Pamphlets :—**It is proposed to print Sir S. P. Sinha's Presidential Address in Marathi, Gujarati and Hindi in pamphlet form for public circulation. It is also proposed to print in pamphlet form some of the lectures delivered and papers read under the auspices of the District Congress Committees in Bombay. The cost of this is estimated to come to about Rs. 500.

4. Library :—It is also proposed to start a small library of books and periodicals on politics, and the General Secretarial Board proposes to spend a sum of Rs. 1,000 during this year.

As the District Congress Committees receive a nominal fee of Re. 1 from the members, it is impossible for them to devote any part of the subscriptions for this special work which, as will be seen from the above, is estimated to cost a sum of about Rs. 4,000.

We, therefore, approach the members of the District Congress Committees as well as the general public of Bombay, interested in political reform, to contribute their mite generously for the special fund which the General Secretarial Board is trying to raise, and we trust our appeal will not be in vain.

*N. B.* Contributions should be sent to the Secretaries of the General Secretarial Board of the District Congress Committees at the Servants of India Society's Home, Sandhurst Road, Girgaon, Bombay, or to Mr. Motilal Vallabhji, Treasurer of the Special Fund of the District Congress Committees in Bombay, 4 Bruce Lane, Fort, Bombay.

Secretaries of the District Congress Committees in the mofussil are requested to order out copies of the pamphlets published by the General Secretarial Board of the District Congress Committees in Bombay for circulation amongst their members and amongst other people in their respective Districts.