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JOINT COMMITTEE  
ON INDIAN CONSTITUTIONAL REFORM

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of the Joint Committee on  
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REFORM**

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## Note by the Secretary of State for India on Memoranda submitted by Mr. Douglas Dewar.

Mr. Dewar, in his two memoranda, supports his general argument with a wealth of statistical information. I have not found it possible to have examined all the figures used, but it is clear that in a good many instances Mr. Dewar presents statistics in a manner which conveys a very different impression from that to be gained from a study of the Accounts and other published records. I think that the Committee would desire to have their attention drawn to the main instances which have come to my notice in which Mr. Dewar's presentation of the figure is, in my view, at variance with the official documents.

I deal with the instances seriatim. I have not made any attempt to indicate how far Mr. Dewar's inferences from figures, or comparison of figures, are likely to be invalidated by the fact that the world economic depression has severely hit the finances of India, as of every other country.

(1) *Main Memorandum, page 1984.*

Mr. Dewar says:

"That the reforms are largely responsible for the recent increases in expenditure is shown by the fact that the charges under the head of General Administration (including Audit) in India, rose from Rs.289,20,000\* in 1912-14 to Rs.15,15,50,000 in 1930-31, whereas the gross expenditure rose from Rs.125,48,85,000† to Rs.230,42,90,000. In 1908-09 the gross expenditure for the whole of India was Rs.109,24,88,675.‡

Provincial expenditure tells the same story; the gross expenditure of the U.P. Government rose from Rs.747,46,750 in 1908-09 to Rs.12,03,32,100 in 1931-32, i.e., nearly doubled, while the increase in the General Administration charges rose from Rs.20,82,000 in 1908-9 to Rs.141,13,300 in 1931-32—a sevenfold increase!"

These figures are designed to show that, while the total expenditure in the whole of India (and also in the United Provinces in particular) has approximately doubled during the periods which Mr. Dewar takes, the expenditure on general administration, instead of rising in approximately the same proportion, has been increased about fivefold in all India, and about sevenfold in the United Provinces; and that the discrepancy is due to greatly increased pay-rolls consequent upon the Montagu-Chelmsford Reforms.

The fact is, however, that in 1921 a change was made in the grouping of the accounts, and since that date the whole of the "General Charges of District Administration," which had previously been entered under other heads, was included under "General Administration."|| As the figures below show, this invalidates Mr. Dewar's contention; and indeed if correct

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\* Correct figure: Rs.2,91,61,000 in 1912-13 and Rs.2,97,55,000 in 1913-14.

† Correct figure: Rs.125,63,24,000 in 1912-13 and Rs.124,34,17,000 in 1913-14.

‡ Correct figure: Rs.110,24,88,675.

|| The descriptive heading of the relevant account, in the published "Finance and Revenue Accounts of the Government of India" for 1921-22 and every subsequent year, has contained the statement:—"General Administration.—The charges recorded under this head relate . . . and also to cost of district administration which, prior to 1921-22, was divided between the heads 'Land Revenue' and 'Administration of Justice.'"

16<sup>o</sup> *Novembris*, 1933.] NOTE BY THE SECRETARY [Continued.  
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figures were used, it would appear, adopting Mr. Dewar's own criterion, that no disproportionate burden on the Indian taxpayer should be attributed to the reforms.

The All-India figure for charges on account of general administration in 1930-31, as given by Mr. Dewar, is Rs.1515.5 lakhs. Of this amount, over 60 per cent. (Rs. 922.4 lakhs) is in respect of District Administration, for which nothing is included in his figure for 1913-14.

Similarly, taking the United Provinces figures; of the General Administration figure of Rs.141.1 lakhs as given by Mr. Dewar, more than 70 per cent. (Rs.101.6 lakhs) represents charges of District Administration, in respect of which nothing is included in his figure for 1908-9.

(2) *Page 1985.—Pension charges.*

The retirement of 558 officers on proportionate pension is said to cost India over 1 crore of rupees annually.

The total actual pensions of such officers could not amount to this sum. The net *extra* pecuniary cost through their having retired on proportionate pension instead of in the ordinary course is difficult to calculate, but would, in any case, be a very small amount in comparison with the total pension.

(3) *Main Memorandum, page 1987.*

Mr. Dewar gives figures of the Forest Revenue in two provinces in 1929-30 and 1930-31. He states that the fall in revenue was "due to the increase of lawlessness," and in support of this he purports to "quote" the Bombay Government's Administration Report as stating that "the reason" of the heavy fall in Bombay was that Civil Disobedience assumed an aggressive form. In point of fact, both in that (Bombay) Report and in the Forest Department's Report of the Central Provinces the general trade depression is put first among the causes of the fall in revenue, though it is of course stated that it was accentuated by civil disobedience. (The following is the relevant extract from the Central Provinces' Report: "There was a decrease under all heads" [of Forest Revenue] "due chiefly to the general depression in trade. The civil disobedience campaign also affected the revenue from timber and other leases and grazing.")

(4) *Pages 1993-4 of the Main Memorandum.*

With reference to Mr. Dewar's statement as to what will "undoubtedly" happen in the future, namely, heavy withdrawals from the Savings Bank, and (apparently) encashment of cash certificates, it may be of interest to give the following figure covering a period during which the prospect of constitutional change has been before the Indian people:—

On the 31st March, 1925, 1926 and 1927 respectively, the aggregate outstanding amount of Post Office Cash Certificates and Post Office Savings Bank deposits in India added together, were Rs.38 crores, Rs. 48 crores and Rs.56 crores.

By March, 1928, the Statutory Commission had been appointed, and the total amount held with the Government of India by small investors under the two heads in question had increased to Rs.63 crores.

In the following two years it further rose to Rs.68 crores and Rs.72 crores.

By March, 1931, the Report of the first Round Table Conference had received publicity and the combined amount of cash certificates and Savings Bank deposits had risen to Rs.75 crores.

16<sup>o</sup> *Novembris*, 1933.] NOTE BY THE SECRETARY [Continued.  
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Similarly, in March, 1932 and 1933, following the publication of the Second and Third Round Table Conference Reports respectively, the combined total rose to Rs.82 crores and Rs. 97 crores.

Finally, only two months later, on the 31st May, 1933, the last date on which figures are available at the moment, when, of course, there had been ample opportunity for the contents of the White Paper to become known, the combined amount of these totals had further jumped to Rs.102 crores.

(5) *Supplementary Memorandum (No. 76)—page 1995.*

The figure for capital cost in the Provinces, given as Rs.54 lakhs, should be Rs.45 lakhs. The capital cost of the Federal Court is estimated to be about 5 or 6 lakhs. The small corresponding annual charge is covered by the large figure for "Contingencies," viz., 25 lakhs a year, included in the estimate for new "overhead charges" at the Centre (p. 21 of Record No. 8).

(6) *Supplementary Memorandum—page 1997.*

(a) At the top of the page there is an inaccurate account of the position in respect of the liability taken over by India for British War Loan in connection with her War contribution. The facts, which are well known and have been fully explained in Parliament, are that more than three-quarters of the £100 million was paid out of the proceeds of loans raised in India for the purpose. It was in respect of the balance only that a liability was assumed for a corresponding amount of British War Loan and in respect of this (until the recent suspension connected with the War Debt uncertainties) interest on the outstanding amount was paid each year and Sinking Fund payments were made from time to time in redemption of the principal amount. The latter payments have never represented more than a fraction of the sums provided in the Budget for reduction and avoidance of debt; and it is entirely misleading to suggest that these sums have been entirely absorbed for this purpose. The position is made quite clear in the published accounts and estimates.

(b) Mr. Dewar gives £13 millions as the amount of India's unproductive debt at the end of 1913-14 and £183 millions at the end of 1932-33. But these figures are not comparable.

In the earlier year he has taken the amount by which capital invested in interest-earning assets such as Railways and Irrigation works, was exceeded by the Government's *market debt* (i.e., stocks, bonds, etc., outstanding). Having assigned this meaning to "unproductive debt" when dealing with 1913-14, Mr. Dewar should, in instituting a numerical comparison, have assigned the same meaning to it in respect of 1932-33. In respect of the latter year, however, he has taken a figure representing the amount by which the interest-earning assets are exceeded by *all* interest-bearing obligations, including not merely market debt but also such items as provident fund balances, Post Office Savings Bank deposits, Depreciation and Reserve Funds, and Provincial Balances.

These "other obligations" amounted, at the end of 1932-33, to about Rs.196 crores (£147 millions). This amount must therefore be subtracted from the £183 millions, to obtain a figure for 1932-33 representing purely

16<sup>o</sup> Novembris, 1933.] NOTE BY THE SECRETARY [Continued.  
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market debt less interest-earning assets; so that the 1932-33 figure comparable with £13 millions in 1913-14 would be, not £183 millions, but about £36 millions.\*

(c) If "unproductive debt" is taken as meaning the excess of all interest-bearing obligations over interest-yielding assets—its present amount in the case of India is, according to Mr. Dewar's own figures, about £183 millions as compared with a total revenue of £155 millions. A comparison instituted on this basis between India and other important countries could scarcely fail to show India's administration and finances in a very favourable light.

(d) In suggesting a comparison between the rate of increase of unproductive debt in India and in England, Mr. Dewar has deducted in each case the debt directly attributable to the War. But such debt is at least as unproductive as any other; it is represented by no interest-yielding or other tangible assets; and from the tax-payers' standpoint it is no less burdensome than any other kind of debt not so represented.

(e) The argument in the last paragraph in the 1st column of page 1997 appears untenable. If the comparison is valid at all it should be based on the debt *per head*, since it is the wealth per head of the population which Mr. Dewar uses as the basis of comparison. Moreover India's post-war position should be compared with that of England after, not before, the War. There is not much real value in a comparison of this kind, but for what it is worth it may be presented without its misleading features. As pointed out above, there is no ground for treating debt due to the War as productive debt. If then, the so-called unproductive debt of India is taken (including all "other obligations" mentioned above) as £183 millions, this represents say 13s. 4d. per head of the population of British India. According to Mr. Dewar, the British national debt, which is presumably almost entirely "unproductive," amounts to about £7,648 millions or very roughly £170 per head of the population. This makes it possible to leave a very generous margin for the difference in wealth per head in the two countries and still make a comparison, for what it is worth, tell emphatically in favour of India.

(7) Last paragraph of page 1999, continued on page 2000.

The figures quoted are apparently intended to be based on the Memorandum contained in Record No. 1, but it is not clear how they are arrived at. The 19 crores referred to apparently includes 8 crores transfer of Income Tax to the Provinces which is an estimate of the *maximum permissive* transfer under the White Paper proposals, which would in any case have effect only after a period of years. It also apparently includes one crore in respect of the remission of States' tributes, etc., which would only have effect after a period of years.

\* Alternatively, if £183 millions is to be taken as the present "unproductive debt," it should be contrasted with a comparable figure for 1913-14. Materials are not readily available for computing this, but it would obviously be much larger than the figure given by Mr. Dewar which takes into account market debt only.

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16<sup>o</sup> Novembris, 1933.] NOTE BY THE SECRETARY [Continued.  
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(8) Page 2000.—*Railways.*

This paragraph appears to present figures in a misleading way.

Immediately after a reference to "gross traffic receipts" Mr. Dewar goes on to say that "the present interest charges are only Rs.6 crores less than the traffic receipts in the best year, viz., 1927-28." The implication is that he is still referring to *gross* traffic receipts, but in fact "the traffic receipts in the best year," which are said to exceed the present interest charges by only Rs.6 crores, are *net* traffic receipts, i.e., after deducting all working expenses and making full provision for depreciation.

Mr. Dewar then stated that the total loss as the result of the last three years' working is "Rs.23½ crores, despite the fact that the expenditure on replacements has been Rs.9 crores below the normal figure." This clearly implies that the aggregate loss of 23½ crores is arrived at *after* taking into account the saving secured by abnormally low expenditure on renewals. This, however, is not the fact. The figure of 23½ crores is arrived at after making full allowance in each year for depreciation, and indeed the amount debited during this period for depreciation reserve exceeded the actual expenditure on renewals by Rs.17 crores. Thus, if only actual expenditure on renewals were taken into account, the aggregate loss during the three years of intense depression would be reduced to about Rs.6½ crores, instead of the figure of 23½ crores given by Mr. Dewar.

Mr. Dewar asserts that for the recent deterioration in the financial results of the Railways the present economic slump is "only in part" responsible. The statistical basis which he adduces for this assertion has been shown above to be somewhat misleading. Actually there is no doubt that the economic depression has been mainly responsible for the deterioration, just as it has gravely affected the finances of Railway and other concerns throughout the world. To exemplify this fact one may survey the financial results of the Indian Railways over a somewhat longer period. During the eight years from April, 1924, when the scheme for partial separation of Railways from general finances was inaugurated, to March, 1932, the surplus net revenue of the Railways, after not only paying working expenses, but also deducting interest charges, and making full allowance for depreciation, amounted (notwithstanding the indifferent results of 1931-32, when the effects of the world slump were already severely felt) to Rs.38 crores, or say £28½ millions. Thus during that period the Railways not only were in the aggregate self-supporting but contributed a surplus to general revenues averaging over £3½ millions per annum.

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