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**MEMORANDUM BY THE MADRAS GOVERNMENT ON THE FINANCIAL
RELATIONS WITH THE GOVERNMENT OF INDIA.**

"Under this system (present provincial settlements) there has always been a competition between the growing needs of the Central Government and the equally growing needs of the Provinces; and from that competition there arose, in our past history, inequalities of treatment, sacrifices by the thriftier Provinces and relative extravagances by the more powerful Provinces." (Paragraph 4 of Memorandum, dated 31st December 1918, presented by the Government of India to the Southborough Committee.)

It may perhaps be convenient to state the Madras case for the Committee in a few sentences at the outset and in the later paragraphs to develop the various heads of the case.

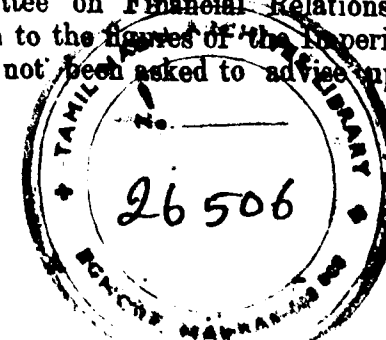
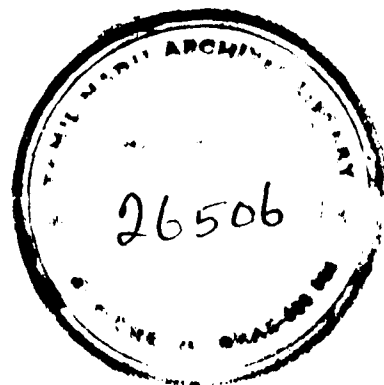
The Madras case is briefly as follows:—

- (1) The Madras Government venture to doubt whether, in view of the recommendations of the Committee on Indian Currency and Exchange which have been acted upon by the Government of India, there will be any imperial deficit to be met at all.
- (2) If there is a deficit at the outset, it is likely to be covered by the expansion of existing imperial revenues, which include all the most elastic heads of taxation.
- (3) Failing that, it should be met by increased imperial taxation, which is the only way to distribute the burden equitably.
- (4) If any levy is to be made, it should not be made from Madras because of her past financial history.
- (5) The future needs of Madras are very great and she requires every rupee of her revenues.
- (6) The first levy should be made upon the existing balances which have accumulated under a system which is now admitted to have been inequitable.
- (7) The next step should be for the provinces to take over a portion of the public debt equivalent to the provincial loan account and so set free imperial moneys that are now locked up.
- (8) If in the last resort, a levy is to be made on current revenues, the various methods of calculating the contributions should be classed in the following order:—
 - (a) *A levy in proportion to expenditure.*—This is calculated to recognise thrift and penalise extravagance.
 - (b) *A levy based on population.*—This provides a rough and ready basis of calculation.
 - (c) *A levy proportionate to revenue.*—This is not a fair basis, since the revenues which are left to the Provinces are those which are levied at rates varying with the discretion of the Provincial Governments, and a levy on revenue means increasing the taxation of those who are already most heavily taxed.
 - (d) *A levy proportionate to surpluses.*—This is still more unfair. It takes into consideration both the highest scale of taxation and the lowest scale of expenditure. It penalises the levy of high taxation for the common benefit as well as the exercise of thrift in the administration.
 - (e) *A levy based on net improvement of revenues under the new dispensation.*—This is the most unfair of all. It means a levy in proportion to the losses of half a century.
- (9) In view of the probability of an increase on the one hand of imperial revenue and on the other of provincial expenditure, any contribution that may be made should be regarded as a loan repayable with interest.

THE QUESTION WHETHER ANY IMPERIAL DEFICIT NEED BE PROVIDED FOR AT ALL.

2. The Committee on Financial Relations have been invited to examine this question in relation to the figures of the Imperial budget for 1920-21. The Local Governments have not been asked to advise upon it, nor in the circumstances can

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they do so, as the coming year's budget has not yet been presented by the Government of India. The Madras Government would, however, like to invite attention to one or two points which seem to be deserving of inquiry.

3. In the first place, it is desirable to make some allowance for habitual caution in the framing of the budget. The following table compares for a series of years the estimated and actual revenues of the Government of India as a whole and shows that on the average the actual receipts exceeded the estimate by about 7 per cent :—

(1)	Budget. (thousands of £.)	Actuals. (thousands of £.)	Difference column (3)— column (2) (thousands of £.)	Percentage of column (4) to column (3).
(2)	(3)	(4)	(5)	
1910-1911	75,454	80,682	+ 5,228	6.98
1911-1912	78,035	82,836	+ 4,801	6.15
1912-1913	79,354	86,863	+ 7,509	9.46
1913-1914	82,325	85,207	+ 2,882	3.50
1914-1915	85,079	81,158	- 3,921	- 4.61
1915-1916	80,400	84,414	+ 4,014	4.99
1916-1917	86,529	98,050	+ 11,521	13.31
1917-1918	98,871	112,662	+ 13,791	13.95
1918-1919	109,190	121,186	+ 11,996	10.99
Total	775,237	833,058	+ 57,821	7.46

4. The original estimate of the deficit which finds a place in the Reforms Report was 1,363 lakhs. This was arrived at on the basis of the budget for 1917-18 and without regard to the actuals of that year (paragraph 206 of the report). Actually in that year the deficit was only 641 lakhs.

This deficit figure of 1,363 lakhs was reduced successively, first in April 1919 to 12 crores (which it may be observed included provision for abnormal expenditure amounting to 225 lakhs), secondly to about 11 crores at the Simla Conference of September 1919, and subsequently to 6 crores in January 1920. This last reduction has relation to the practical assurance of the continuance of a high exchange, but beyond that the Government of Madras have no information as to how it was arrived at.

5. It may be assumed that the reduction is based on the recommendations of the Currency Committee. If it is so, the question arises why it is not larger. The Currency Committee based their calculations on a 2-shilling rate of exchange and anticipated a profit to the Government of India of $1\frac{1}{2}$ crores a year. That is more than enough to wipe out the previous deficit. Exchange at present is actually nearer 2s. 8d. and therefore the profit will be proportionately greater.

The only reason which the Government of Madras can suggest for the retention of a deficit of 6 crores is that provision has been made for meeting the depreciation of the sterling investments and gold in the Paper Currency Reserve. This is estimated by the Currency Committee at 38 crores, and they anticipate that it will be wiped out in three years. At a higher rate of exchange it will be wiped out in a shorter time. If this is the sole item to be provided for, there are means for providing for it without any levy at all from the Provinces.

IMPERIAL REVENUES WILL EXPAND.

6. With the exception of Excise (which may be radically affected by a prohibition policy), all the most elastic sources of revenue are those which have been reserved by the Imperial Government. The Madras Government would invite the special attention of the Committee to the ratio of expansion of India's revenues to that of the expansion of those which are reserved to the Local Governments, during the past seven years. Assuming the classification of heads decided on in the Reforms Report to have been brought into effect seven years ago, the Imperial revenues would have amounted to £44,757,000 in 1912-13 and the Provincial revenues to

£42,106,000. In 1919-20, the Budget Estimate of the Imperial revenues, which is likely to be largely exceeded, amounts to £73,325,000 while the Provincial revenues amount to £50,079,000. Thus during a period of seven years the Imperial revenues have grown by 64 per cent and Provincial revenues by 19 per cent. The figures are as follows :—

Imperial sources of revenue.

In thousands of £.						
	1912-13, actuals.	1919-20, budget.	Difference (column 3 —column 2).			
Opium	5,125	3,056	— 2,069			
Salt	3,334	3,914	580			
General stamps	1,746	2,203	457			
Customs	7,197	13,352	6,155			
Income-tax	1,742	13,555	11,813			
Posts and Telegraphs	3,437	5,717	2,280			
Railways	17,372	21,373	4,001			
Other heads	4,804	10,155	5,351			
Total	44,757	73,325	28,568			

Provincial sources of revenue.

Land revenue including irrigation	22,821	24,645	1,824
Court-fee stamps	3,323	3,894	571
Excise	8,116	11,808	3,692
Forest	2,083	3,167	1,084
Registration	4,767	5,607	840
Other heads	936	958	— 38
Total	42,106	50,079	7,973

7. Nor is the growth of these Imperial revenues by any means at an end. The revenue from Railways is bound to increase; under the head of Customs there have been already imposed export duties on raw hides and skins and a Committee has just been appointed by the Government of India to consider the general question of preferential duties. The increase in values must mean an increase in collections. An increase in the rate of duty on liquors is urgently needed if a check is not to be placed on the increase of local Excise duties. The tremendous boom in trade which has followed the war has brought about a large expansion of revenue from Stamps and Income-tax. Under the latter head, a further large expansion is inevitable, now that the question of accurate assessment has been seriously taken up, while the growth of companies will bring to tax a large amount which has hitherto been concealed. Meanwhile the rates of postage and telegrams continue at levels fixed for revenue purposes during the war, while abnormal profits are being secured under the head of Exchange. At the same time most of the heads under which a large expansion of expenditure is imperative are kept in the control of the Local Governments.

AN INCREASE IN IMPERIAL TAXATION IS THE BEST AND FAIREST WAY OF MAKING GOOD A DEFICIT.

8. The heads of taxation reserved for the Government of India are not only the most elastic, but they are also those that most readily admit of increase. If new sources of revenue have to be looked for, increases in the taxes on luxuries or on incomes other than those derived from land or in the stamp duties at once suggest themselves. The alternative is an increase in the taxation levied at the discretion of the Local Governments. Where it is desired to secure money for Imperial purposes, it is obviously fairer to secure it by a tax which is levied at the same rate upon all Provinces than to secure it by requiring the Provinces to increase the taxes levied at the discretion of their Governments without regard to the fact that in certain Provinces the rates at which these taxes are levied are already on a much higher level than they are in others. It will further be seen from the figures given in

Appendix B to this note that, even on the basis of a levy on surpluses, local taxation would be necessary in some Provinces if they are to contribute anything at all. This refers of course only to normal expenditure. In the case of a grave emergency, such as a war, the Provinces need not object to a levy for the purpose of meeting the common danger.

THE PAST HISTORY OF MADRAS ENTITLES HER TO CONSIDERATION.

9. Reference has just been made to the fact that the taxes which are levied at the discretion of Local Governments are imposed at a higher rate in some Provinces than they are in others, Madras being one of the former. This is the direct result of her financial history. And it seems desirable very briefly to touch on this with a view to showing how she has been crippled in comparison with other Provinces in the matter of development.

10. The history of the financial settlements divides itself into five periods, each bringing the Government of India nearer to the recognition of the fact that a Province is entitled to spend the revenues which its Government levies.

In the first period, prior to 1871, both revenue and expenditure were completely centralised. The Local Government could not keep any part of its collections and it could not undertake any expenditure without specific sanction.

In the second period, from 1871 to 1882, certain limited allotments were given for expenditure on certain specified services.

In the third period, from 1882 to 1904, the Provinces were given a share in certain growing heads of revenue, but the object seems to have been mainly to stimulate their interest in collections. The Government of India still repudiated the idea that Provincial expenditure had any relation to Provincial revenues as will be seen from the following extract from a letter received from the Government of India in 1898:—

“The opening paragraphs of your letter raise more or less directly the intricate and far-reaching problem of the amount actually contributed by the several Provinces towards the expenditure of the Empire and of the principle on which Provincial expenditure should be adjusted in relation to this assumed contribution.

If the question in any way depended upon figures it might be possible to take it up; but the moment it is entered upon the number of collateral issues upon pure questions of opinion turns out to be unlimited, and no argument used by one Government in its own favour is at all likely to be accepted by another” (Letter from the Government of India, Finance and Commerce Department, No. 4385-A, dated 7th October 1898).

In consonance with this idea the balances * accumulated by the economies of Madras were resumed by the Government of India at the close of each quinquennial settlement (17.44 lakhs per annum in 1887, 10.38 lakhs per annum in 1892 and 13 lakhs per annum in 1897). * (surpluses.)

11. In 1904 commenced a new period, known as the period of the quasi-permanent settlements, in which the principle of equality was first recognized. It was laid down, in the words of the Decentralization Commission Report, that “so far as possible the same share of the chief sources of revenue should be given to each Province, to insure a reasonable equality of treatment.” This principle, however, was not carried into practice in the settlements made in the years 1904 and 1905, under which, for instance, Bombay received one-half of the revenue under the heads Land Revenue, Stamps, Excise, Income-tax and Forests, while Madras received one-half of Stamps and one-fourth of the other four. The matter was pressed upon the Government of India and Sir Edward Baker acknowledged the inequality of the settlement and promised amendment; and in 1908 this promise was fulfilled and a half share of all the five heads given to both Provinces.

12. This treatment, however, was short-lived. In 1911 began what was known as the permanent settlement. The intention of the Government of India in adopting the above change was, on the one hand, to give more elasticity to the settlements and more freedom to Local Governments in working them, and on the other hand, to protect the general tax-payers of India against possible mismanagement in any particular Province, and to put an end to the frequent and undesirable controversies over the adequacy of the existing settlements. The Government of India retained

the option of distributing among the Provinces special grants both recurring and non-recurring out of India's surplus revenues. The net result, comparing Madras and Bombay for convenience again, was that both received the whole of the revenue from Forests and Registration, and half the revenue from Land Revenue, Stamps and Income-tax. But, while Bombay was allowed to take the whole of the Excise, less a fixed assignment equal to one-half of the revenue accruing at the time of the settlement and was allowed to enjoy the increment under this head of growing revenue, Madras was still allowed only one-half of the revenue from that source. If the treatment accorded to Bombay had been accorded to Madras, she would have been enabled in 1919–1920 to incur expenditure on Provincial developments to the extent of 95 lakhs more than she did.

13. The option retained by the Government of India to distribute surplus grants developed into an undesirable system of doles. In this also Madras fell short of getting her share thus:—

For a population of 41½ millions, Madras obtained a recurring grant of 28.50 lakhs for Education during the years 1911–1912 to 1919–1920, Bengal with a population of 45½ millions received 41.81 lakhs during the same period, and Bombay with a population of 19½ millions received 21.45 lakhs.

The distribution of non-recurring grants tells the same tale. In March 1911, when the Government of India distributed the opium surplus for 1910–1911, Madras was given only 11 lakhs out of a total of 147 lakhs for Education and Sanitation, and, out of a total grant of 104 lakhs distributed among the various Provinces for miscellaneous objects, Madras did not receive a single rupee (page 170 of the Government of India Financial Statement for 1911–1912).

14. It was left for the framers of the Reforms Report to discover and proclaim the inequality of burden which history has imposed on Madras. They say:—

“We attach great weight to the proposition that, if the Provinces are to be really self-governing, they ought to adjust their expenditure, including therein their obligations to the common interests of India, according to their resources and not to draw indefinitely on more enterprising neighbours.”

15. The effect of the facts above recorded upon Madras in arresting the development of the Province will be dealt with under the next head. Meanwhile, it is desirable to emphasize the facts that, in order to satisfy the demands made, Madras had to impose the taxation which was leviable at the discretion of the Local Government at a higher rate than other Provinces, and that in respect of the administration of Imperial taxes she has by stricter administration imposed a heavier burden upon the tax payer.

16. The following table compares, on the latest figures available, the rates of taxation per cultivated acre of land and per proof gallon of country spirit in different provinces:—

(A) LAND REVENUE.

Incidence of land revenue per cultivated acre in ryotwari areas.

	RS.	A.	P.	
Madras	2	8	11	} Agricultural Statistics of India, 1916–1917.
Bombay	1	5	7	
United Provinces—				
Agra	1	12	8	
Oudh	1	15	3	
Punjab	1	8	6	
Central Provinces ...	0	10	0	
Bihar and Orissa ...	1	2	6	

(B) EXCISE.

Average taxation of a proof gallon of country spirit.

	RS.	A.	P.	
Madras	11	2	2	} Figures for 1918–1919.
Bombay	10	2	7	
Bengal	9	13	7	
United Provinces ...	5	15	4	} Figure for 1917–1918.
Punjab	11	0	6	
Bihar and Orissa ...	4	4	4	} Figures for 1918–1919.
Central Provinces ...	7	1	11	
Assam	7	3	10	

It may be added that the tree-tax, which various other Provinces have rejected on the ground largely of the harassment which it involves, brings in to Madras a revenue of 105 lakhs a year.

17. In passing, a brief reference may be made to the argument advanced by certain Provinces to the effect that, because they will pay larger sums in income-tax and customs to the Government of India, they should pay less out of the taxes that are levied at the discretion of the Local Governments. A little reflection will show that the conclusion to be drawn from this fact is the exact opposite. The test of fitness of a Province to contribute is its wealth, and two main tests of wealth are income and consumption of luxuries. If therefore it is the fact that the incomes that pay tax in Calcutta and Bombay are earned in Bengal and Bombay and that a large proportion of the goods that pay duty in those Provinces is consumed in them, that fact seems to afford an unanswerable argument for increasing, and not for reducing, their contribution.

18. The following table again compares the incidence of local taxation per head of population (page 200 of Statistics of British India, 1919, Volume IV) :—

	RUPRE.
Madras	27
Bombay	18
Bengal	16
United Provinces	14
Punjab	23
Bihar and Orissa	10
Central Provinces	08
Assam	13

It may be mentioned in this connexion that Madras, almost alone of the Provinces, retains the mediæval system of levying tolls and collects through them a sum approximating 25 lakhs a year to assist in the maintenance of main lines of communication which this Province alone has handed over entirely to local bodies.

19. Meanwhile the Madras form of enforcement of Imperial schemes of taxation has been more rigid than that of other Provinces. The most noticeable example of this is salt. The licit consumption per head of this necessary of life in Madras is over 20 lbs., while in other Provinces it falls as low as 8 lbs. This high rate of consumption has been arrived at by the rigid suppression of illicit practices, involving at one time over 13,000 prosecutions a year. In contradistinction to this are the injunctions on page 69 of the Manual of the Northern India Salt Revenue Department, to the effect that prosecutions are not to be instituted unless there are reasons to suppose that offences have been committed wilfully or with the knowledge of the prohibitions of the law, that women are not to be arrested unless there is clear proof that they and not their male relatives are answerable for their acts, and that collection of salt earth is not to be treated as manufacture of salt. The absence of any law under which the Madras policy of enforcement of the fiscal law could be effected was the main reason why the administration of salt in Orissa on behalf of Bengal had to be given up.

An examination of the details of the customs procedure, for instance at the outposts and land customs stations, would reveal a like result. It is believed that the enforcement of the Stamp law has been more rigid here than elsewhere, and it may perhaps be cited as evidence of this that several of the notifications of exemptions have been passed on the motion of Madras, the only Province which literally enforced the law in respect of certain classes of documents. In the case of income-tax, a recent estimate by the Collector of Ramnad of the proportion borne by the assessment paid by Nattukottai Chettis in Burma to what they would pay if assessed in Madras indicates that they escape two-thirds of the tax, and their strenuous objection to being taxed in the Province to which they belong seems to confirm the correctness of this estimate.

20. It must not be supposed that the Madras Government have accepted willingly the disabilities which history has imposed upon them. It has been suggested that the Financial Settlements of the past were such as to obscure the real nature of the problem. The Madras Government venture to say that it has never throughout the period been obscure to them. They have protested in season and out of season, both

by letter and through their official representatives in the Legislative Council, until the latter were suppressed. Nor have they been alone in making these protests. The matter has been one that has roused strong feelings among commercial and political parties for many years past. In evidence of it a reference may be invited to the protests of the Madras Chamber of Commerce made in the years 1897, 1900 and 1901. In 1911 and 1913 the Madras Provincial Conference passed resolutions suggesting that the excise revenue in Madras should be entirely provincialized. In March 1915 a resolution was moved in the local Legislative Council suggesting that a representation should be made to the Government of India for the grant of larger shares of revenue to Madras. In addition, the matter has been referred to by non-official members of the local Legislative Council at almost every Budget Debate from 1911 to 1918, while a number of resolutions which sought to raise this question as well as that of the financial arrangements under the Reforms have been disallowed. The question was also raised by non-official members in the Imperial Legislative Council in 1913 and 1917.

21. It may be well to conclude this portion of the subject by illustrating the inequality of burden which history has imposed on Madras through the following statement which compares her present position with Bombay :—

According to existing Provincial Settlement.			
	1917-18 Actuals.	1918-19 Revised.	1919-20 Budget.
	LAKHS.	LAKHS.	LAKHS.
Madras—			
Receipts	834.30	849.90	885.68
Charges	785.59	854.89	960.93
Surplus (+) or deficit (—)	+ 48.71	— 4.99	— 75.25
Bombay—			
Receipts	887.21	980.19	1,038.27
Charges	766.53	916.89	1,052.00 *
Surplus (+) or deficit (—)	+ 120.68	+ 63.30	— 13.73

It will be seen that in Madras the Provincial revenues have increased from 834 lakhs in 1917-18 to 886 lakhs in 1919-20 and that, as its existing Provincial revenues are insufficient to meet the expenditure, the current year's budget shows a deficit of 75 lakhs in order to meet the war allowances and grants to local bodies. In Bombay, where the excise revenue is at present wholly Provincial, the revenue has risen from 887 lakhs in 1917-18 to 1,038 lakhs in 1919-20, in consequence of which the Province has been enabled to incur expenditure on a very large scale on account of war allowances (47 lakhs), Public Works, etc.

MADRAS SHOULD BE ALLOWED THE FULL ENJOYMENT OF HER REVENUES IN ORDER TO ENABLE HER TO MAKE UP THE LEEWAY OF THE PAST HALF CENTURY.

22. It will be seen from the table in the previous paragraph that the present total expenditure of Madras, in spite of the large deficit in 1919-20, is nearly a crore less than the expenditure in Bombay although the population is more than double that of that Province. The expenditure per head of population on education, police, and medical relief is less than half that of Bombay. Almost the same is the case in the matter of sanitation, public works and other important heads. Progress has been delayed in almost every direction. There is only one elementary school for boys per 681 of the total male population. There is only one qualified teacher for 68 boys under instruction. There is only one drainage scheme outside the Presidency town, which itself is only partially drained. The benefits of water-supply have been extended only to 27 out of 75 municipalities. There is only one qualified medical practitioner for every 22,000 of the population.

23. A feature of the Madras administration is the relatively smaller number of districts; Madras has fewer district officers—Collectors, Judges, Medical officers,

* Includes (1) 47 lakhs for war allowances.
(2) 146.90 lakhs for Public Works while the standard allowed at the Simla Conference is only 125.08 lakhs.
(3) 15 lakhs for famine relief (Provincial share); the total (Imperial and Provincial) is 60 lakhs while the standard allowed at the Simla Conference is 35.50 lakhs.

etc., than the other main Provinces. That an expansion of the administrative machinery at no distant date is inevitable will be obvious from the following table :—

Province.	Population (in millions).	Area in square miles.	Number of districts.
MADRAS	41½	140,000	25
BOMBAY	19½	123,000	26
BENGAL	45½	79,000	28
UNITED PROVINCES	47	107,000	48
PUNJAB	19½	99,000	30

What is true of the districts is true of subdivisions and of tahsils, as will be seen, for instance, from comparative figures of the numbers of Deputy Collectors in Madras with those of officers of the same class in the North. As one instance of the results of this may be cited the fact that committal to sessions, even in the gravest cases, is done in this Province almost invariably by sub-magistrates whose maximum pay is Rs. 150 a month, while the great majority of the post mortem examinations are conducted by sub-assistant surgeons. It is believed that there is no parallel for this state of affairs elsewhere in India.

24. To quote another instance in respect of which Madras is behindhand, this Presidency contains an area of 19,000 square miles known as the Agency Tracts which are comparable in many respects to parts of the Central Provinces. In the Agency Tracts, development has hardly yet begun; the tribes are in a state of semi-savagery; the resources are untouched. The Collectors administering the area live in the plains at a distance, and the only officers of gazetted standing residing within the area are 4 revenue divisional officers, 1 engineer, 1 medical officer and 4 police officers. To arrive at an idea of the leeway that has to be made up in this area, it is only necessary to mention that the Nerbudda division of the Central Provinces, which includes a large area of the Satpura Hills, is manned by a Commissioner and the full district staffs in all departments of five districts.

25. The increase of prices has rendered a re-examination of salaries imperative and this Government are awaiting the report of the Salaries Committee which was appointed towards the close of October 1919. So far, they have received a preliminary report dealing with establishments on Rs. 30 and below and the cost is about 9 lakhs per annum in addition to the war allowances at present granted.

Other proposals which have been indicated by the Salaries Committee are—

(1) The raising of the pay of village accountants to Rs. 15 per mensem and of village menials to Rs. 8 per mensem. The extra cost is about * 38 lakhs per annum.

(2) The raising of the minimum pay of elementary school teachers. This measure, if there are taken into account only trained teachers and those only in schools under public management, involves about 35 lakhs per annum. The bill for extending it to all teachers in existing schools under public management, for subsidizing private managers, and for extending this provision to the very large number of new schools which must be opened every year will be many times this sum.

When all these cases, which are really cases in which the present pay is less than a living wage, have been dealt with, there will remain the case of the intermediate appointments in all departments between these and those that have been dealt with by the Public Services Commission. On this point, the report of the Salaries Committee has not yet been received, but so far as can be gathered it will be necessary to give an increase on a sliding scale of percentages which will decrease as the salary increases. The total cost involved will be enormous.

26. The Province has also to incur very heavy outlay, both recurring and non-recurring, on account of the expansion and improvement of education in general and elementary education in particular. For carrying out the proposal of the Government of India that the present number of pupils in boys' elementary schools should be doubled in ten years, the cost was roughly estimated, when the minimum pay of teachers was reckoned at Rs. 12 per mensem, at 122 lakhs per annum in addition to an expenditure of about 54 lakhs every year on buildings. A portion of this will come out of additional taxation to be imposed by local bodies, but against this contribution will have to be set off the increase in cost in consequence of raising the minimum pay of teachers.

* This refers only to ryotwari tracts and does not include the cost of revising the pay of village munsifs.

Technical and professional education is in no less need of expansion. The fact that the Government are unable to provide in their medical and engineering colleges and schools for nearly all the youths who wish to take up these professions is a most serious obstacle to progress.

27. Local self-government has advanced more rapidly in Madras than in other Provinces, and in particular, local bodies have taken over practically all the roads of the Presidency. But their advance has been hampered from the first by want of funds and the necessity for supplementing their resources by grants from Government has led to the development of a very unsatisfactory system of doles, in spite of the fact that local bodies still continue to retain tolls, an antiquated form of taxation which has been abolished almost everywhere else in India. The Government are desirous of abolishing tolls, but to do this would involve the sacrifice of a sum of not less than 25 lakhs per annum.

The reorganization of the finances of local bodies in order that they may be able to administer effectively the branches of administration which have been committed to their charge is a matter which cannot be long delayed and which must involve the Provincial Government in a very great outlay.

28. It will also readily be admitted that very large expenditure will have to be incurred in the near future for the expansion and improvement of other provincial departments, such as Medical Relief, Sanitation, Forests, Fisheries, Agriculture, Industries, Co-operation and Labour. A large scheme for the improvement of jails has been held up only because of the advent of the Jails Committee. The Government refrain from entering into details of these schemes in view of the request of the Committee made in that regard.

THE FIRST LEVY SHOULD BE UPON THE EXISTING BALANCES.

29. It has now been admitted that the past system of distribution was inequitable. During the war, expenditure was limited to purposes of real necessity and Provinces were not allowed to draw freely from their balances. Under these conditions balances have accumulated which upon the budget for 1919-20 (the latest figures available) stand as follows :—

	LAKHS.
Madras	121
Bombay	441
Bengal	323
United Provinces	206
Punjab	216
Burma	99
Bihar and Orissa	116
Central Provinces	101
Assam	37
Total	1,660

30. It seems obvious that, if a levy is to be made, it should be made in the first instance upon these balances which have accumulated under an inequitable system of distribution of revenues among the Provinces. It is also right that at the outset of the Reforms the Provinces should all start fair and to this end it is desirable that each should have a balance proportionate to its annual expenditure.

The minimum balances prescribed for the Provinces, which were practically fixed in 1892, are as follows :—

	LAKHS.
Madras, Bombay, Bengal and the United Provinces (20 lakhs each)	80
Burma and Bihar and Orissa (12 lakhs each)	24
Punjab, Central Provinces and Assam (10 lakhs each)	30
Total	134

These figures are somewhat out of date and they may perhaps be trebled. Granting that each Province began the Reforms with thrice its standard minimum balance, there would be left in the hands of the Government of India a sum of about 12 crores which might suitably be applied to wipe out part of the loss on depreciation in the Paper Currency Reserve.

A better arrangement still would perhaps be to start each Province with an opening balance equal to five per cent of its standard expenditure. This would set free an even larger amount.

REDEMPTION OF THE PROVINCIAL LOAN ACCOUNT.

31. In addition to the question of Provincial contributions, the Committee have been asked to report upon the future financing of the Provincial Loan Account. This account differs in a material respect from the irrigation capital account, the other account through which the Government of India indirectly lend money to the Local Governments. The latter forms part of the public debt, from which sums are made available from time to time for expenditure on capital works, the Local Governments being charged interest on the amounts so made available at the average rate of interest paid during the year on the total public debt. The Provincial Loan Account, on the other hand, is supplied from the balances of the Government of India, which thus incurs no interest on it, while it charges interest to the Local Governments. These, again, lend the money to agriculturists or to local bodies.

In March 1918, the Madras Government, finding themselves with balances, which they were not permitted to utilize, amounting to a sum equal to or greater than the portion of the Government of India balances on which they were paying interest, raised the question whether Provinces so situated might not themselves finance their Provincial Loan Accounts. This reference appears to be the origin of the reference to the Committee. It seems necessary to observe that circumstances have altered since it was made. The restrictions on expenditure from balances have been largely withdrawn. The demands upon them, especially those involved in the recommendations of the Salaries Committee, are such as to render it probable that they will be exhausted in the near future. Moreover, the proposal that each Province should start with an opening balance equal to 5 per cent of its standard expenditure, the remainder being appropriated by the Government of India, will, if accepted, not leave any Province in a position to meet from its balances the loans that are now met from the Imperial balances.

Meanwhile, the Government are disposed to doubt whether, as a permanent arrangement, the scheme suggested would be at all suitable. The demands for loans to agriculturists are apt to be greatest at times when balances are lowest. Meanwhile, there are indications that to make up for the slow progress in this respect in the past, the demands by local bodies for loans for the construction of water-supply and drainage works are likely, in the near future, to be very large indeed. It is probable that under such conditions it would not be possible to guarantee the permanent financing of this account from the balances of the Local Government. Nor does it appear that that would be altogether an economical arrangement. It seems to the Local Government desirable that the Government of India should act as banker to the Local Governments in respect of this account in just the same way as it does in respect of the irrigation capital account and that both should be financed in the first instance out of the public debt, subject to arrangements being made whereby a Local Government might at stated periods pay off a part of the public debt for which it was liable out of balances which it had been able to accumulate. Such payments would of course be in addition to those now made as the loans now made by Local Governments are repaid to them.

If an arrangement on some such basis as is above suggested were adopted, it would seem likely that there would be set free to meet the loss on sterling investments and gold in the Paper Currency Reserve a sum out of the Government of India's balances equivalent to the amount of the present provincial loan account, while the Local Governments would become liable to the investors for a corresponding amount out of the public debt.

In making this suggestion, the Local Government have not ignored the possibility of raising loans locally for local purposes. After a full consideration of the question, however, they are of opinion that any attempt to do so would lead to undesirable competition and would probably result in the Local Governments having to pay higher rates of interest than they would have to pay to the Government of India. In the circumstances, it seems preferable that for the probationary period at any rate the present position of banker and client should be maintained.

32. It has been suggested at the outset of this note that if any contributions are made as a levy from provincial funds for Imperial purposes, these should be treated as loans with interest to be extinguished as soon as the position of the Imperial finances admits. Their extinction could perhaps be arranged by wiping out sums from year to year from the Provincial Loan Account of the leading provinces, and in the interim period the interest on the levy might be set off against the interest due to the Government of India on the Provincial Loan Account.

LEVY FROM PROVINCIAL FUNDS.

33. The propositions which are stated in the first paragraph under this head are self-evident. It has been shown that Madras has exacted Imperial taxation more rigidly than other Provinces, that in the case of taxes in which discretion is left in the hands of the Local Government it has imposed higher rates than other Provinces, that it has practised economy in its expenditure throughout and that its development has been retarded.

In these circumstances, it will be clear that a levy proportionate to revenues would be a penalty for its past administration. A levy inverse to expenditure, which is what would be involved by a levy on the annual surplus, would in addition be a penalty on thrift. A levy based on a consideration of the net improvement which is anticipated would involve taking away a part of what has at last been admitted to be due. A levy on population, though a rough and ready method, might cause hardship in the case of the most thickly populated Provinces. The Madras Government maintain very strongly that no levy on Provinces should be made, but if one is to be made they adhere to the opinion previously expressed that the best test would be the scale of expenditure adopted in the past.

To illustrate these propositions, a series of tables showing what would be the result on the Provinces of a levy upon each plan is attached. A note is also appended showing the alterations which should be made in the net improvement statement prepared by the Committee. (Appendices A, B and C.)

34. Lastly, as regards the proposed payment by the Provinces to the Government of India on account of Home charges in the shape of pensions and leave allowances, the Madras Government observe that one main reason for proposing these payments was the reduction of the Imperial deficit. They hope that instead of a deficit there will be a surplus, in which case this ground for action disappears. For the rest they would remark that the proposal involves an attempt at scientific accuracy which has wisely been abandoned in regard to the rest of the adjustments that are being made and the Government would therefore ask whether, with reference to the first ten years at any rate, it would not be sufficient for the Government of India to pay the charges, meeting them out of Imperial taxation, or, if that is not possible, recovering from each Province a sum proportionate to its annual expenditure. This plan would in effect be unfavourable to Madras since, as has been shown, Madras has a lower proportion of officers in the superior services than other Provinces. But it would seem that, generally speaking, it would provide a scheme of distribution which is practically fair all round since the proportions of officers recruited in Europe to revenue and expenditure are generally similar and so also may be expected to be the proportions of pensioners and officers on leave.

35. There are also attached in another appendix a series of opinions by the non-official members of the Finance Committee and by other gentlemen whom the Madras Government have consulted (Appendix D).

FORT ST. GEORGE,
24th February 1920.

C. G. TODHUNTER.

APPENDIX A (Paragraph 33 ante).

REFORMS REPORT FIGURES.

Contributions from Provinces according to various methods in order to meet the assumed Imperial deficit of 600 lakhs adopting, for the figures for revenue and expenditure, the budget for 1917-18 given in paragraph 206 of the Reforms Report.

(1)	Gross revenue.	Gross expenditure.	Gross Provincial surplus.	Contribution.			
				On the basis of gross Provincial surplus (method adopted in the Reforms Report—paragraph 206).	Per capita basis.	Gross revenue basis.	Gross expenditure basis.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.
Madras ...	1,331	840	491	188	104	117	96
Bombay ...	1,001	900	101	39	49	88	103
Bengal ...	754	675	79	30	115	66	77
United Provinces ...	1,122	747	375	144	118	99	85
Punjab ...	864	614	250	96	49	76	70
Burma ...	769	608	161	62	27	67	69
Bihar and Orissa ...	404	359	45	17	87	36	41
Central Provinces ...	412	371	41	16	35	36	42
Assam ...	171	150	21	8	16	15	17
Total ...	6,828	5,264	1,564	600	600	600	600

NOTE.—As the figures constantly change, the Reforms Report figures may suitably be taken as the standard for present purposes, as they were based on the Budget for 1917-18, a war year, when the expenditure in the several Provinces was restricted to items of real necessity. From columns (4), (5) and (7), it will be seen that each province would be left with a surplus of its own, not only if the levy was on gross provincial surplus, but also if it was on gross provincial revenues.

APPENDIX B (Paragraphs 8 and 33 ante).

SIMLA CONFERENCE FIGURES.

Contributions from Provinces according to various methods in order to meet the assumed Imperial deficit of 600 lakhs on the basis of the standard figures for revenue and expenditure adopted by the Simla Conference of September 1919.

(1)	Gross revenue.	Gross expenditure.	Gross Provincial surplus.	Contribution.			
				On the basis of gross Provincial surplus (method adopted in the Reforms Report—paragraph 206).	Per capita basis.	Gross revenue basis.	Gross expenditure basis.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.
Madras ...	1,442	1,055	387	211	104	118	101
Bombay ...	1,148	1,099	49	27	49	93	105
Bengal ...	773	792	19	10	115	63	76
United Provinces ...	1,207	863	344	187	118	98	83
Punjab ...	962	733	229	125	49	79	70
Burma ...	812	721	91	49	27	66	69
Bihar and Orissa ...	415	418	3	2	87	34	40
Central Provinces ...	421	414	7	4	35	34	40
Assam ...	179	163	16	9	16	15	16
Total ...	7,359	6,258	1,101	600	600	600	600

NOTE.—The foregoing statement shows the results arrived at by adopting the standard figures for revenue and expenditure adopted at the Simla Conference.

It will be seen that the plan of a levy on gross Provincial surplus (column 5), the only merit claimed for which was that it was the only plan which would leave each Province with a surplus, has since failed to achieve this object, and two Provinces (Bengal and Bihar and Orissa) are actually in deficit.

APPENDIX C (Paragraph 33 ante).

Net improvement of the Provincial Finances under the new scheme (statement prepared by the Committee on Financial Relations).

MADRAS.

	On present classification.		On proposed classification.		Imperial expenditure transferred to Provincial.
	Imperial.	Provincial.	Imperial.	Provincial.	
I.—Land Revenue ...	LAKHS. 3,04,28	LAKHS. 3,04,28	LAKHS. ...	LAKHS. 6,08,56	On proposed classification—
IV.—Stamps ...	82,50	82,50	60,00	1,05,00	1.—Refunds ... 32
V.—Excise ...	2,38,25	2,38,25	...	4,76,50	2.—Assignments. 3,10
VIII.—Income-tax (Ordinary).	38,95	38,95	77,90	...	6.—Stamps ... — 49
IX.—Forest ...	...	49,36	...	49,36	7.—Excise ... 11,23
X.—Registration ...	...	27,10	...	27,10	10.—Income-tax. — 55
XII.—Interest ...	...	5,52	...	5,52	25.—Political ... — 56
XVI-A.—Courts of Law ...	...	10,91	...	10,91	26.—Scientific ... —5,25
XVI-B.—Jails ...	...	7,08	...	7,08	33.—Famine ... 3,65
XVII.—Police ...	...	4,31	...	4,31	35.—Protective Irrigation. 1,74
XVIII.—Ports ...	...	1	...	1	42.—Irrigation—Working Expenses. 8,62
XIX.—Education ...	...	5,20	...	5,20	
XX-A.—Medical ...	...	2,97	...	2,97	
XX-B.—Sanitation ...	...	15	...	15	
XXI-A.—Agriculture ...	...	3,74	...	3,74	
XXI-B.—Scientific ...	...	11,71	...	11,71	
XXII.—Superannuation ...	...	1,47	...	1,47	
XXIII.—Stationery ...	...	1,42	...	1,42	
XXV.—Miscellaneous ...	...	2,49	...	2,49	
XXIX.—Major Works—Direct receipts.	1,61	1,61	...	8,22	
Portion of Land Revenue due to Irrigation.	53,61	53,61	...	1,07,22	
XXX.—Minor Works ...	...	3,15	...	3,15	Interest ... 1,69
XXXI.—Civil Works ...	...	4,35	...	4,35	
Recurring contributions from Imperial (net).	-18,92	+ 18,92	...	...	43.—Minor Works. 4
Total ...	7,00,28	8,79,06	1,37,90	14,41,44	37,54.

	LAKHS.
Gross increase in Provincial income ...	5,62,38
Deduct—Imperial expenditure transferred to Provincial ...	37,54
Net increase in Provincial income ...	5,24,84

NOTE TO APPENDIX C.

According to the statement, the net improvement in the case of Madras is shown as 524.84 lakhs, against the surplus of 386.42 lakhs adopted at the Simla Conference. Neither figure takes into account the changes that are likely to be made as regards pensions and furlough allowance charges.

2. This net improvement represents mainly the difference between the Provincial revenues of Madras in the budget for 1919-20 under the terms of the existing Provincial Settlement and those revenues as adjusted according to the classification of heads between Imperial and Provincial in the Reforms Scheme. It does not deal with the figures on the expenditure side, except in the case of those few heads which will undergo a reclassification between Imperial and Provincial.

3. The Committee remark that the statement will serve as a basis for discussing any claims which may be made for special treatment by a Province owing to its past financial history.

4. If such a basis is to be considered, the Madras Government would claim that the initial figures should be reckoned at what Madras would have received if she had had the same treatment as other Provinces have had. For instance, it should be reckoned—

(1) that the Excise revenue and expenditure are wholly Provincial as in Bombay; and

(2) that the cost of maintenance of main lines of communication, now borne by local bodies in Madras, is a Provincial charge as in other Provinces—vide this Government's letter to the Government of India, No. 468, Financial, dated 13th July 1917 and India's letter No. 7, Education (Local Boards), dated 5th February 1918.

If the Excise revenue and charges of Madras had been wholly Provincial from

	Provincial share of the total figures according to the	
	Budget, 1910-11.	Budget, 1919-20.
	LAKHS.	LAKHS.
V. Excise ...	140.80	238.25
7. Excise ...	9.44	11.23
1. Refunds ...	15	28
2. Assignments ...	23	60
	130.98	226.14

Addition to be now made on the assumption that Excise was wholly Provincial from 1911-12.

Maintenance charges of main roads to be borne by Provincial funds.

1911-12 as in Bombay, Madras would receive in 1919-20 an additional revenue of 226.14 lakhs. At the same time, she would have to pay a fixed assignment to Imperial of a sum of 130.98 lakhs, representing one-half of the net Excise revenue of the year 1910-11. The difference, viz., 95 lakhs, should consequently be now taken to the credit of the Provincial revenues of Madras.

95.16

16.00

111.16

5. The Government would like to add the following further comment on the statement. At the Simla Conference, the normal standard of expenditure for Madras was taken at 1,055.02 lakhs, i.e., 169.34 lakhs more than the current year's budget figure of Provincial receipts (885.68 lakhs). This excess of 169.34 lakhs is caused by—

	LAKHS.
(a) Change in the classification of heads between Imperial and Provincial ...	40.06
(b) 33. Famine Relief (2.87) and 35. Protective Irrigation (12) ...	2.99
(c) 26. B. Scientific and Miscellaneous Departments—Cinchona Department (hereafter Imperial).	4.77
(d) Roads—Local bodies being relieved of maintenance charges ...	16.00
(e) Deficit in the budget, chiefly to meet war allowances to low-paid Government servants and grants to local bodies ...	75.25
(f) Other items—Public Service Commission's proposals; increase in Public Works Department's rates, etc. ...	39.81
	169.34

Items (a) to (d) have been taken into account in the statement prepared by the Committee modified with reference to paragraph 4 above. This Government desire to point out that items (e) and (f), costing about 115 lakhs, should also be allowed for, as these represent charges which have already been incurred or which will be

* This deficit is for specific purposes and would have occurred even assuming that Madras got the 95 lakhs referred to in paragraph 4 ante, in view of the fact that corresponding to this increase there would have been a gradual growth in expenditure from 1911-12 on development of various services, such as Education, Sanitation, Medical Relief and Agriculture.

incurred by this Government in the immediate future. The net improvement of 524.84 lakhs in the statement prepared by the Committee should therefore be reduced in the aggregate by (111 + 115) or 226 lakhs to about 299 lakhs.

6. This figure of 299 lakhs will be further reduced considerably when various other factors such as those indicated below are taken into account:—

(a) There is a much smaller margin for development in Madras under the principal heads of revenue as the present rates of taxation under Land Revenue and Excise are very high.

(b) Considerable outlay will have to be incurred in Madras in order that it may reach the level already attained in Bombay, where the expenditure per head of population under almost all important heads of Provincial charges is more than double that in Madras.

(c) In addition, there are several costly schemes which must imperatively be financed in the near future in Madras in the various Provincial departments, e.g., revision of pay of Government servants in all departments, Education, Medical Relief, Sanitation, Agriculture, Industries, Labour and Co-operation.

FORT ST. GEORGE,
24th February 1920.

C. G. TODHUNTER.

MEMORANDUM DATED THE 17TH FEBRUARY 1920
BY THE CHAIRMAN, MADRAS CHAMBER OF COMMERCE.

The request is that Government may be favoured with a memorandum embodying the views of the Madras Chamber of Commerce on the financial relations between the Government of India and Local Governments under the Reforms Scheme, and more particularly on the question of the contributions to be paid by the Local Governments in aid of the Central Exchequer.

2. First of all I would say, that the Chamber welcomes this opportunity of re-opening a very ancient but still existing grievance; what might be called the old vexed question of Provincial contracts. The Chamber trusts that the Madras Government will make a great fight on this occasion, that it may be their last battle, and that they will be successful in securing full financial justice. Madras looks for a large measure of generosity now, to make up in some degree for the long years of starvation our Presidency has had to sit under. Anything the Chamber can do will be done, and all the influence it possesses will be used to assist Government.

3. The present generation of members of the Chamber is in no way behind its predecessors in resenting the inequity of the financial settlements which have so seriously hindered the supplying of the needs and the development of the resources of the Presidency.

I have not gone further back in the Chamber's records than the year 1897. On 28th January of that year, the Chamber telegraphed at length to the Government of India touching the great curtailment proposed by the Government of India in next Provincial contract period. The Chamber protested 'emphatically against proposal as being grave injustice this Presidency which has for long paid more than its fair share towards Imperial revenues'. Please see pages 207-215 of the Chamber's Annual Volume for 1897 [sub-enclosure (i)].

On 11th December 1900, the Chamber returned to the attack when it presented an address to Lord Curzon, pages 31-32, Annual Volume, 1900 [sub-enclosure (ii)].

On 2nd September 1901, there was a public meeting held in Madras and a memorial sent to the Viceroy referring to the 'just cause for serious dissatisfaction with the existing financial arrangements between the Government of India and the Government of Madras'.

It would appear that four paragraphs in the proposed memorial were excised by the meeting, but our Chamber adopted as its own the arguments which were omitted and addressed Government on its own account, pages 129-137, Annual Volume, 1901 [sub-enclosure (iii)].

In a memorandum sent to the Chief Secretary, Government of Madras, Public Department, to be forwarded to the Functions Committee which sat in Madras on the 21st January 1919, the Chamber brought to the notice of the Committee 'the very unfair proportion of the cost of the Indian Government which is borne by Madras' [sub-enclosure (iv)].

The last time the Chamber called attention to the matter was so recently as November last, when it presented an address to His Excellency the Viceroy [sub-enclosure (v)].

At our Annual meeting in December last, the Chairman, Sir Gordon Fraser, referring to the heavy contribution of revenue paid by the Madras Government to the Government of India, spoke as follows:—

"This is a very sore subject with Madras and it is a matter on which all shades of opinion are unanimous. It is satisfactory to learn from His Excellency the Viceroy's reply that a special committee will be appointed to consider the subject, so it is necessary for us in Madras to put forward our claims as strongly and convincingly as possible so that in the re-classification of revenue between the Central and Provincial Governments this injustice will be removed."

4. The foregoing is sufficient to show that the Madras Chamber of Commerce has consistently held the view that our Presidency has not been fairly dealt with, to put it mildly.

Speaking on broad lines, without going into particulars, public works of prime importance such as harbour development and railway development have been starved. Technical education has lagged behind in the way of training Indians as Mechanical Engineers, Chemists, Architects, etc. Consequently the expansion has been hindered of such Industries as the Presidency is well fitted to undertake such as Fisheries, Dyeing, improvement in weaving, etc. Above all agriculture, the mainstay of the Presidency, has languished because of lack of funds to pursue the go-ahead policy of establishing model farms in every district. In all directions there is abundant need for development.

5. Now that it is proposed to reverse the former process and Provincial Governments instead of receiving from are to contribute to the Government of India, the Madras Chamber of Commerce trusts that the Government of India will recognize the long years of inequity to Madras and will inaugurate the new system by freeing this Presidency from any contribution whatever.

6. As a tentative measure at any rate, I would advocate that freedom from contribution be agreed to until the real necessity for contribution is evident, if thought practicable certain funds might even be earmarked by the Local Government so as to become available for the purpose of the Central Exchequer, should the need for contributions become imperative. In any case, I would stipulate that should contributions of any sort be exacted the transaction be looked upon in the nature of a loan to be repaid, with interest.

7. If it is found absolutely necessary to levy contributions, the method of calculation must not be on the Provincial surplus basis, this would but continue the existing injustice to Madras.

I consider the most equitable method to be the expenditure basis, or a per capita basis.

8. But if an all-India deficit must be provided for, this Chamber is strongly of opinion that it should be met by Imperial taxation and not by levying contributions from provinces.

9. The present high rate of exchange must greatly diminish the all-India deficit for 1921-22 and go a long way to remove the necessity of any contributions at all from Provincial revenues. Apart from the factor of exchange, there has been such an expansion of business during the war that the development of Imperial sources of revenue should greatly increase. Income-tax should be swollen ere long by returns from new Banks, Insurance Companies and Industrial ventures innumerable. Again it must not be forgotten that the high values of all imports is adding tremendously to Customs returns in the way of very much larger collections of duty. Factors such as these seem to make the fear of an all-India deficit more or less groundless.

J. F. SIMPSON,

Chairman, Madras Chamber of Commerce.

17th February 1920.

SUB-ENCLOSURE (i)

Extract from pages 207-215 of the Chamber's Annual Volume for 1897.

Letter—from GEORGE G. ARBUTHNOT, Esq., Chairman, Chamber of Commerce, Madras.

To—the Secretary to the Government of India, Finance Department.

Dated—the 2nd February 1897.

I have the honour to confirm my telegram of the 28th ultimo, as follows:—

"From Order Madras Government, No. 46, Financial, dated 19th instant, reviewing Madras Civil Budget Estimates 1897-98, Chamber learns with deep concern that large reductions Public Works expenditure Madras been necessitated by great curtailment proposed by Government India in the adjusting contribution from Imperial revenues from Rs. 32.54 lakhs in present quinquennium to Rs. 8.43 lakhs in next Provincial Contract period. Chamber respectfully begs protest emphatically against proposal as being grave injustice this Presidency, which has for long paid more than its fair share towards Imperial revenues and which more subject to famine than other Presidencies. The diminution of Imperial contribution to extent upwards Rs. 24 lakhs per annum next five years will have disastrous effect on Madras Budget, necessitating very great restriction expenditure on Irrigation and other Public Works of prime importance. Under conditions new Provincial Contract, transactions Madras 1897-98 expected result deficit Rs. 19.33 lakhs, closing balance being brought down to Rs. 3.92 lakhs against

prescribed minimum balance Rs. 20 lakhs. No reason been assigned for immense reduction contemplated, but Chamber supposes it due to increased expenditure necessitated account famine. If so, Chamber contends that most inequitable that increased contribution from Madras to Imperial revenues should be fixed so long period as five years, and that only special contributions are justified, as in the past. Chamber also respectfully protests against public being left absolutely in dark regarding this most important transaction until such late date, whereby effective criticism rendered almost impossible. Chamber addressing Government India on subject through Madras Government."

The Chamber is acutely conscious of the difficult position in which it is placed in having to deal with the question of the new Provincial contract with the imperfect information which has—very late in the day—been supplied to it, and to the general public through the Press; but it was, in the Chamber's opinion, imperatively necessary for it to take immediate action, as it is understood that the terms of the new Provincial contract will be finally settled at a very early date.

The Chamber assumes that in proposing to make so drastic an inroad on Madras revenues as is involved in the reduction of the adjusting assignment from Imperial revenues from Rs. 32 lakhs to Rs. 8 lakhs for the quinquennial period, the Supreme Government must have been mainly, if not entirely influenced by the exigencies of famine requirements. It is of course impossible to estimate at present even approximately what the cost of the famine will be; but taking it at the large figure of Rs. 8 crores, the proposed contribution from Madras would cover the interest on the whole famine expenditure.

Although the famine and consequent distress are likely to be less severe in this Presidency than in other parts of India, still, in various parts of the Madras Presidency the outlook is very gloomy, and there can be little doubt that Madras revenue collections during the next year or two must suffer severely.

I have also to point out that, as mentioned in my telegram, many parts of this Presidency are peculiarly subject to famine, and in this connexion I have to submit that a reduction of about Rs. 16 lakhs in annual expenditure on irrigation and other works of public utility such as is involved in the proposals under consideration, cannot but be disastrous in the extreme to the well-being of Madras. I would venture to repeat that in the opinion of the Chamber any contribution from Provincial revenues to imperial famine requirements should be special, and not fixed so as to extend over the whole quinquennial period of the new contract.

In view of the exceptional circumstances of the year, it seems to the Chamber most desirable that the ratification of the new contract should be postponed until such time as the Local Governments are in a position to carry out their financial arrangements—which at present they are not, owing to the heavy demands upon their resources for famine purposes—and that while Imperial needs are a first claim upon all public revenues, the Government of India should avail itself of its borrowing powers to meet exceptional expenditure such as that on famine.

The Chamber is well aware that it is the wish and intention of the Supreme Government to hold the scale of justice evenly balanced as between all parts of India. But it is confident that it has the support not only of the mercantile community, which it specially represents, but of all classes throughout the Madras Presidency in strenuously urging the undue hardship which will be inflicted on this Presidency if the adjusting assignment from Imperial revenue is reduced to anything like the extent now proposed. I have the honour, therefore, to express the Chamber's earnest hope that the question of the assignment will be re-considered and adjusted on terms less onerous and injurious to the vital-interests of this Presidency.

SUB-ENCLOSURE (ii)

Extract from pages 31-32 of the Chamber's Annual Volume for 1900.

ADDRESS TO HIS EXCELLENCY THE VICEROY.

The following is the address which the Chamber presented to His Excellency the Viceroy on the occasion of his visit to Madras on the 11th December 1900:—

TO HIS EXCELLENCY THE RIGHT HONOURABLE

BARON CURZON OF KEDLESTON, P.C., G.M.S.I., G.M.I.E.,

Viceroy and Governor-General of India.

MAY IT PLEASE YOUR EXCELLENCY,—The members of the Madras Chamber of Commerce, in presenting this address of cordial welcome to Your Excellency, desire to express their appreciation of the favour which has been graciously accorded to the Chamber in being allowed to lay before Your Excellency its views on certain matters of deep interest to Madras and the Presidency.

Provincial contracts.—The Chamber would beg to be allowed to represent to Your Excellency the urgent need for a readjustment of these contracts, and for a more liberal treatment being extended to this Presidency as regards the proportion of revenue which it is allowed to retain for Provincial or Local expenditure. The people of the Presidency cheerfully recognize that it is incumbent upon them to contribute their full quota to Imperial expenditure, but the Chamber would respectfully represent that a very strong and general feeling exists throughout the Presidency that this quota is at present unduly high, and that in consequence of this the progress and prosperity of the Presidency are to a serious extent checked through lack of funds to be expended upon local works of great public importance, and in some cases of urgent

necessity. The Chamber would venture to add that in its opinion the Provincial contract system is bad in itself. The original idea of these contracts was to encourage thrift and economy and good management in the Local Governments; but when it was suggested by Sir David Barbour that some fair share of what may be termed unearned increments might reasonably be claimed by the Supreme Government for Imperial purposes, it was certainly not contemplated that it should annex the whole. This, however, is what is practically now done, and the result cannot but be demoralising both to the Provincial and the Supreme Governments. The Chamber begs to be allowed to quote and endorse the wise words of His Excellency Sir Arthur Havelock, who, in a financial debate in Council, said:—"In my opinion, the financial condition of the Presidency will not be satisfactory until a larger degree of financial independence and control is conceded to the Provincial Governments, and until some arrangement more consistent, more permanent and less one-sided than the present contract system has been adopted."

SUB-ENCLOSURE (iii)

Extract from pages 129-137 of the Chamber's Annual Volume for 1901.

THE MADRAS PROVINCIAL CONTRACT.

Letter—from A. J. YORKE, Esq., Chairman of the Public Meeting.

To—the Chief Secretary to Government, Ootacamund.

Dated—Madras, the 9th September 1901.

I have the honour to inform you that at the public meeting held in Madras on the 2nd instant, in connexion with the serious dissatisfaction that is felt with the existing financial contract with the Government of India, it was resolved, in deference to the wishes of certain native gentlemen, to amend the draft memorial to His Excellency the Viceroy by the excision of four paragraphs which they considered, in effect, asked for greater expenditure on the general administrative staff than they were prepared to recommend. While otherwise fully agreeing with the memorial in its amended form, the Chamber considers that the request for an increased administrative staff is one which should have been advanced, and it begs therefore to adopt as its own the arguments which were omitted, and which are as follows.

2. As regards the general administrative staff in Madras, the Chamber has no hesitation in describing it, both relatively and absolutely, as undermanned in the extreme. Throughout the Presidency the District Administration is starved and overworked, the size of the districts and of the subdivisions (known in Madras as divisions) being out of all proportion to the size of similar administrative units elsewhere. There are in the Madras Presidency 22 districts and 83 subdivisions in an area of 141,000 square miles and for a population of 38½ millions. In the neighbouring Province of Bombay, with only about half the population and a smaller area, there are 24 districts and 206 subdivisions. In Bengal, where though the population is double that of Madras the area is only 7 per cent greater and the revenue far smaller, there are 48 districts and 133 subdivisions. But the contrast is most striking when attention is drawn to the more recently organised provinces, the North-West and the Punjab. The conditions of the North-West Provinces are not unlike those of Madras, the revenue nearly equal, the population greater, the area less. Yet here, as against the 22 districts and 83 subdivisions of Madras, the North-West has 48 districts and 313 subdivisions. The Punjab is in every way a smaller province than the Southern Presidency, the land revenue only half as large, the total revenue one-third as large, and the area and population both much less. Yet the Punjab has been divided into 31 districts with 127 subdivisions.

3. Taking, again, revenue collections as a test, Mr. O'Connor's "Judicial and Administrative Statistics of British India" show that in Madras each Collector has to gather in land revenue and cesses amounting on an average to Rs. 28,15,484; in Bombay to Rs. 17,93,623; in the North-West Provinces to Rs. 15,86,175; and in Bengal to Rs. 9,79,765. That is to say, a Madras Collector is responsible for about double the land revenue that a North-West Provinces Collector and about three times what a Bengal Collector is responsible for. In two districts of the Madras Presidency (Kistna and Gōdāvari) the Collectors are each responsible for more than Rs. 74 lakhs of land revenue and cesses, representing together a revenue demand of nearly a crore and a half, which is 4 per cent of the land revenue and cesses of the whole of India. Looking at the total revenue from all sources, we find that while the average amount collected in each district in Madras is Rs. 42,49,647, in Bombay it is Rs. 28,40,147, in Bengal Rs. 11,56,730, and in the North-West Provinces Rs. 20,31,392.

4. The Chamber might illustrate in other directions the meagre cadre of the District Executive in Madras; but the facts and figures already quoted above, and in the memorial, are sufficient to prove beyond cavil that, compared with other provinces, Madras is extremely ill-treated in this respect. Contributing, as she does, a larger sum to the total revenues of India than any other province, her share in administrative benefits is the smallest.

5. That the Madras Government itself has been conscious of the weakness of its present District Administration may be seen in the concluding paragraph of its review of famine operations in 1897-1898, which runs as follows:—

Another matter which has been prominently brought to the notice of Government during the distress is the weakness of the district organisation in all departments, and its inability to

meet any sudden strain. In paragraph 3 of his note, dated 3rd July 1897, recorded last year after inspection of the districts threatened with famine, Mr. Winterbotham remarked:—"The weakness, chiefly numerical, of our district organisation in all departments, its inability to meet any sudden extraordinary strain, and the difficulty of rapidly strengthening it, are the most disconcerting features of the situation."

6. I have the honour, in conclusion, to express the Chamber's hope that, in forwarding a copy of this letter to the Government of India, the Government of Madras will strongly support the Chamber's request.

THE PUBLIC MEMORIAL.

TO HIS EXCELLENCY THE RIGHT HON'BLE

GEORGE NATHANIEL, BARON CURZON OF KEDLESTON, P.C., G.M.S.I., G.M.I.E.,

Viceroy, Governor-General of India, in Council.

The memorial of the inhabitants of Madras assembled in public meeting convened by the Sheriff this second day of September 1901.

SHREWETH,—1. Your memorialists beg respectfully to represent the circumstances that appear to them to give just cause for serious dissatisfaction with the existing financial arrangements between the Government of India and the Government of Madras under what is generally known as the Provincial contract. It is not the intention of your memorialists to represent at any length the disabilities imposed upon this Local Government, as on others, by the whole system governing the periodical arrangement of the Provincial contracts. They would point out, however, what lies at the root of the whole question—namely that the term "contract," owing to the attitude adopted by the Government of India, has long become, and still remains, a complete misnomer. The word implies an arrangement between two independent persons, each of whom is equally free to agree or to disagree. That is certainly not the position with regard to the Government of India's financial arrangements with the Provincial Governments.

2. Since the year 1893, when the Annual Financial Statements of Local Governments were for the first time, under the amended Councils Act, presented to and discussed in the Local Legislative Councils, ample public testimony has been borne to the unsatisfactory nature of the one-sided arrangements at present existing. In the Madras Legislative Council in April, 1898, His Excellency Sir Arthur Havelock, speaking after three years' experience of the Madras finances and over twenty years' experience of the finances of subordinate Colonial Governments, felt constrained to say:—

"It appears to me that the contract system, so called, is bad in itself. It is demoralising to the Provincial and Supreme Governments, it is bad in that each revision that takes place has a terribly disturbing and dislocating effect on the Local Administration, especially in the important department of Public Works, to which the pruning knife has to be suddenly and ruthlessly applied. It is demoralising to the Provincial Government, because it tends to impair the sympathetic co-operation between the Supreme and Provincial Governments which is so desirable, and because it tempts the Provincial Government in its financial relations with the Supreme Government, which is master of the situation, to have recourse to the tactics of the weak. When we are well off, we try to hide our money and spend it recklessly lest the Supreme Government should lay hands upon it. When we are poor, we try to give undue emphasis to our poverty. The system is demoralising to the Supreme Government because it relieves that Government from the consequence of extravagance."

3. That the present system has been felt to be anomalous and unsatisfactory even by the Government of India itself may be presumed from the statement of Sir James Westland in the Supreme Legislative Council in March 1897, viz., that he had given consideration to the question of an alteration, in some respects, of the Provincial contract arrangements, because he felt "that the present system is one which cannot last." The plan expounded by Sir James Westland as an improvement has presumably been dropped in the best interests of the country, for so far from affording relief on a basis of more just and liberal Provincial contracts it pointed merely to increased local taxation for meeting Provincial requirements. Your memorialists are glad to recall the fact that the Hon'ble Sir E. F. G. Law, the present Finance Member, speaking in the Supreme Legislative Council last March, lent the sanction of his authority to the statement that the present system was unsatisfactory, and therefore your memorialists have every hope that during his term of office, he will endeavour to find the means of making it a satisfactory system.

4. Your memorialists, however, are less concerned with the general principles underlying the present system than with the practical results of their application to this Presidency. There is no denying that there is a deep and widespread feeling throughout this Presidency that under successive contracts, from that of 1882-1887 to that of 1897-1902 now current, the terms imposed upon the Madras Government have grown in severity until, under the present contract, the proportion of revenue which that Government is allowed to retain for local expenditure is altogether inadequate to its just requirements. Your memorialists cheerfully recognise that it is incumbent upon the people of this Presidency to contribute their full quota to Imperial expenditure, but

they would respectfully represent that this quota is at present unduly high, and that in consequence of this the progress and prosperity of "this peaceful and loyal Presidency," as Your Excellency has been pleased to call it, have been to a serious extent checked through lack of funds for administrative improvements and Public Works which are urgently required.

5. The present feeling of dissatisfaction is intensified, too, by the consideration that this arbitrary curtailment of Provincial resources has been synchronous with a remarkable development of Provincial revenues. "We desire," remarked Sir John Strachey in the Financial Statement which first developed the Provincial system, "that the Local Governments shall share largely in any increase of revenue to which their own improved administration may lead." Your memorialists would respectfully represent that the practical benefits of this wise and hopeful declaration have never been extended to the Madras Government, which has undergone the mortifying experience of being deprived, at the settlement of its last three contracts, of a total sum of no less than Rs. 41 lakhs per annum, representing 'improvement' in local revenues, that is, excess of Provincial revenues over Provincial expenditure calculated at the standard attained at the settlement of each new contract.

6. Even in so simple a matter as determining the standard of revenue and the standard of expenditure, the pivot upon which the whole contract necessarily turns, we are furnished with a notable example of what your memorialists can only regretfully describe as the harshness of the Government of India in its financial dealings with the Government of Madras. At the commencement of the current contract, the standard of Land Revenue for Madras was arbitrarily fixed by the Government of India at the extraordinary figure of Rs. 553½ lakhs, when a consideration of the revenue of preceding years could have justified a standard of no more than Rs. 534 lakhs. At the same time, the standard of expenditure was fixed at the impossibly low figure of Rs. 310½ lakhs. It is true that after repeated protests from the Madras Government, extending over two years, the standard of Land Revenue was reduced to Rs. 537½ lakhs, but the standard of expenditure remains the same. The whole transaction, in your memorialists' opinion, affords a convincing proof of the Government of India's illiberality where the finances of this province are concerned.

7. In the same way, the adjusting assignment, which depends upon the standards of Provincial revenue and expenditure arbitrarily fixed by the Government of India, has been ruthlessly reduced at the beginning of each successive contract. For the contract period of 1887-1892 it was Rs. 41 lakhs; for that of 1892-1897 it was reduced to Rs. 32.54 lakhs; while for that of 1897-1902 now current it is only Rs. 16.46 lakhs. That the assignment for the first named period was none too large was amply demonstrated by Sir Henry Stokes in presenting the Financial Statement to the local Legislative Council in April 1893. Though considerable balances were accumulated during the first three years of the period—owing to good seasons and revenue, coupled with only moderate grants for Civil Works—the whole accumulations were required to tide over the subsequent two years of famine conditions, until the Provincial balance was reduced to little more than the obligatory minimum of Rs. 20 lakhs.

8. From the commencement of the contract period of 1892-97 up to the present moment the Local Government has been engaged in a continuous struggle to make both ends meet. It has been enabled to do so only by exercising the most rigid economies in its expenditure on Provincial Irrigation and Civil Works, which expenditure has been reduced from Rs. 71½ lakhs in 1891-92 to Rs. 54 lakhs in 1900-1901, while in the first year of the current contract no more than Rs. 53½ lakhs could be provided for these purposes. The result of this enforced reduction in the allotment for Public Works is not only that the works, many of them necessary for the orderly development of the country, are cruelly starved, but that the cost of supervision for the remainder becomes inordinately enhanced; for the Government cannot dismiss its permanent Engineers and their staff when there is not enough work for them to do.

9. Yet notwithstanding this rigid economy in Public Works expenditure, the Madras Government has found it absolutely impossible to maintain during the current contract the obligatory minimum balance. In three out of the four years the balances have been Rs. 7.18 lakhs, Rs. 5.67 lakhs, and Rs. 0.89 lakh. Such balances are eloquent of the dire financial straits to which the Madras Government has been reduced by the harsh terms of the present contract. It is clear, moreover, that instead of these microscopic balances, there would have been heavy deficits if the province had suffered from famine as other provinces did; but fortunately the famine expenditure of the Madras Government from 1898-99 to 1900-01 amounted to less than Rs. 2½ lakhs.

10. Further irrefutable evidence of the totally inadequate amount of the Madras Government's resources under the present contract is to be seen in the extra grants-in-aid, amounting to no less than Rs. 57½ lakhs in four years, which the Government of India has been obliged to make in order to maintain some semblance of an equilibrium in the Provincial budget, or in the words of the Hon'ble Mr. Arundel, "to save us from practical insolvency." Sir James Westland, in making one of these extra grants-in-aid, remarked in the course of the Budget Debate of March 1899:—"The claim of Madras arises mainly in respect of the fact that at the last revision of the Provincial contracts a larger resumption of revenue was made from it than from any other Province." That is to say, in plain language, the extra grant was necessary, not on account of extra expenditure forced upon this Government by famine, as in

other provinces but by reason of the resumption of an excessive amount of Provincial revenue by the Government of India itself. This bears strong testimony to the fact—which is complained of deeply and widely throughout this Presidency—that the prosperity which is attributed to Madras leads, at each revision of the Provincial contract, to periodical resumptions of unduly large portions of its increasing revenues by the Government of India for purposes other than Provincial, so that while the total revenue increases, a smaller percentage of it is left to be expended in meeting the needs of and in developing the Province that produced it. Furthermore, in making the grant alluded to, Sir James Westland explained that this, and the other grants, were made "once for all" and that they were not to be taken as warranting "any expenditure of a recurring character." In the case of Madras the grant merely enabled a deficit to be staved off, and by the end of the year 1900-01, i.e., last March, another large extra grant of Rs. 34½ lakhs was rendered absolutely imperative in order to preserve an equilibrium and enable the minimum reserve balance to be restored.

11. Your memorialists, with all the above facts before them, have good and sufficient reason, it is respectfully submitted, for asserting that the present contract is an inequitable contract—a contract in which the terms imposed have been proved to be so exacting that ordinary solvency has been difficult of attainment and has been rendered possible only by large extra grants-in-aid and by an excessive curtailment of expenditure on Public Works.

12. While urging the unanswerable claims of this Presidency to a contract that will enable it to maintain a financial equilibrium in the ordinary manner, your memorialists would also urge its equally unanswerable claims to a scale of expenditure that will give it a fair share of continuous administrative improvement, such as other Provinces have been enabled to enjoy. It is an unquestionable fact that the percentage of revenue allowed for Provincial purposes is lower in Madras than in any other Province, the percentages being, as far as can be ascertained, as follows:—

Central Provinces	...	...	...	...	...	...	52.12
Punjab	...	...	...	...	...	...	46.02
Bombay	...	...	...	...	...	...	44.14
Bengal	...	...	...	...	...	...	40.26
North-Western Provinces and Oudh	...	...	...	...	...	...	30.88
Madras	...	...	...	...	...	...	28.60

13. One result, among many other results, of this starvation allowance is that the Police Force of the Presidency is lamentably insufficient in quantity and dangerously unsatisfactory in quality. Complaints on both heads have been of long standing, continuous, and only too well placed. Its deficiency in numbers seriously limits the capacity of the force effectively to discharge its primary duty, the prevention of crime; while its deficiency in education and morale moves it to adopt methods in detection which render it a terror to the innocent and a grave impediment in the administration of criminal justice. Mr. O'Connor's Statistics reveal the startling fact that in this "peaceful and loyal" Presidency 304,216 cases had to be brought to trial in 1899, as against 195,368 in Bengal and 121,910 in the N.-W.P., giving a ratio of "criminality" of 85 per 10,000 of population, as against 27 in Bengal and 26 in the N.-W.P. That this excessive amount of crime in Madras is due to ineffective prevention, and that the latter is due to the huge territorial charges necessitated by the paucity of Superintendents, Assistant Superintendents and Inspectors, admit of no question.

14. In addition to the topics upon which your memorialists have cursorily touched, there are many specific developments and improvements which during the currency of the present contract have been rejected or postponed by Government "for want of funds." Some of these have been enumerated in the local Legislative Council by the Hon'ble Mr. Arundel in the following terms:—

"Roads are urgently required in the Agency tracts and in the ghaut portions of the districts—roads which it is utterly impossible for local boards ever to supply—e.g., the Anamalai Ghaut, the Lower Palni Ghaut, the Kodaikanal Ghaut, the roads in the Rumpas country, the roads in Jeypore connecting the Central Provinces with the sea coast.

The provision of primary education is cramped and stunted for want of money. The whole primary education of the Presidency is imposed on local bodies supplemented by grants-in-aid from Government. The sum spent in 1898-99 amounted to Rs. 9,03,799 or 4½ pies per head of the population, the Provincial share of this expenditure coming to 43 44ths of a pie per head of the population. Of the total sum, Rs. 93,868 was devoted to the education of the Paraiyas, one of the most backward classes in the Presidency, who number nearly six millions. To further Muhammadan education in Madras, about Rs. 1½ lakhs are required to purchase a building in which to locate a suitable school, but this excellent scheme cannot be carried through for want of funds.

It has been urged that a large, properly and sufficiently equipped hospital should be established in the northern part of the City of Madras convenient to the densely populated part of Black Town, and private subscriptions would be forthcoming in aid of the proposal. Nothing can be done towards this object owing to want of funds.

In regard to irrigation works, the improvement of drainage in the Tanjore district is a work of great importance and a work which ought to be carried out as a whole, and for the Godavari and Kistna systems alone large sums are required for the same purpose.

The better sanitation of the larger towns and the improvement of the water-supply of such towns make scant progress owing to the limited grants-in-aid available for the municipalities in the Presidency, whose funds are of themselves utterly insufficient to meet extraordinary expenditure of this description.

The establishment of model farms and veterinary hospitals; the provision of proper accommodation for the public offices in the Presidency town, notably for the Secretariat and the Government records, for the Accountant-General, for the invaluable survey records and maps, for the Sanitary Engineer and the Sanitary Commissioner, are other pressing needs."

15. Referring to the financial year 1899-1900 Sir Arthur Havelock remarked in the Legislative Council:—"Our work has mainly consisted of a painful effort to make both ends meet. It is not only in special years such as the present, but in ordinary years and every year, that we feel that the allotment granted to us is not sufficient to enable the Government of Madras to carry out its duties towards its nearly 40 millions of inhabitants, in the way of providing them with proper equipment in the matters of education, of medical aid, communications and many other things of the sort."

16. Your memorialists need hardly say that the people of this Presidency fully recognise that the requirements of the Imperial Government must be met out of the revenues of the different Provinces, and that the Government of India must decide upon the claims and requirements of each. But the needs of our own Province are great and are constantly increasing, and it is difficult to realise, as the Hon'ble Mr. Arundel remarked in the local Legislative Council last April, on what grounds so small a share of its own revenue has hitherto been assigned to Madras. While the percentage taken for Imperial purposes from Madras has increased from 67.14 in 1882 to 71.40 in 1897 the amount assigned to the Province which is perhaps the richest Province of the Empire, namely, Bengal, has increased from 34.03 to 40.26.

17. In the matter of revenue collection the Madras Government has ever been the most zealous and successful agent of the Supreme Government, but it cannot fail to become disappointed and disheartened when its efforts are so lightly appreciated and so scantily rewarded. Your memorialists would cite the Madras Government's Administration of the salt revenue—a revenue which is wholly "Imperial" and from which Provincial revenues derive no benefit—as an instance of its disinterested efforts in behalf of the Indian Treasury. By organising a good departmental administration and by putting into force a strict preventive law, it has put down the manufacture of illicit salt and has raised the consumption of duty paid salt in this Presidency to over 16 lb. per head of population per annum, while in the other maritime Provinces of Bengal and Bombay, where the administration is ineffective and illicit manufacture is not strictly dealt with, the consumption is only 10½ lb. and 11 lb. respectively. This means, taking the Madras scale of consumption as a realisable standard, that Bengal and Bombay, owing to careless and inefficient administration of an Imperial tax, are defaulters to the extent of Rs. 125½ lakhs and Rs. 28 lakhs per annum respectively.

18. Your memorialists would conclude with the expression of an earnest hope that the above facts may be taken into generous consideration before the terms of the approaching new contract are formulated and imposed upon this Government. Your Excellency, in replying last December to the address of the Madras Chamber of Commerce, referred to "what I believe to be a widespread feeling in Madras, to the effect that the system as at present worked, takes from Madras an excessive share of its Provincial revenues and does not provide a sufficient stimulus to local thrift or self-interest"; and Your Excellency added that "this is a subject which we are now occupied in examining with the Secretary of State and which the Government of India has no desire to approach in any but a generous spirit." Your memorialists derive much hope from the kindly and considerate tone of Your Excellency's observations on that occasion, and feel sure that in the coming revision of the existing unsatisfactory arrangements the claims of this Province will be treated with more justice than was accorded them under the contract now in force.

And your memorialists, as in duty bound, will ever pray.

A. J. YORKE,
Chairman of the Public Meeting convened
by the Sheriff of Madras.

SUB-ENCLOSURE (iv).

*Extract from the Memorandum submitted by the Chamber of Commerce, Madras,
to the Functions Committee which sat in Madras on the 21st January 1919.*

Item 6, Land Revenue Administration.—The Chamber would bring to the notice of the committee the very unfair proportion of the cost of the Indian Government which is borne by Madras.

As admitted in paragraph 206 of the report this is due to inequalities in the incidence of the land revenue owing to the permanent settlement in some areas.

If the assessment of land revenue is to be an entirely provincial matter there is very little hope that those provinces which, at present, escape with an absurdly low contribution to the Indian Government will ever legislate in a manner which will saddle them with a fair proportionate contribution.

The Chamber is strongly of opinion that until the Government of India rectifies the more glaring inconsistencies, as, for instance, the permanent settlement in Bengal, and places the land revenue policy throughout India on a more equitable basis, this item should not be a provincial subject.

SUB-ENCLOSURE (v).

*Extract from an address presented to His Excellency the Viceroy by the Madras
Chamber of Commerce on the 24th November 1919.*

Provincial contribution to Imperial revenue.—The Chamber respectfully invites Your Excellency's attention to the longstanding burden imposed on the Madras Presidency by the present system whereby a heavy contribution from its revenue is paid by the Madras Government to the Government of India. In this respect the Chamber cannot do better than quote to Your Excellency an extract from the address presented to the Right Hon'ble Baron Curzon of Kedleston on the occasion of his visit to Madras in December 1900:—

"The Chamber would beg to be allowed to represent to Your Excellency the urgent need for a readjustment of these contracts, and for a more liberal treatment being extended to this Presidency as regards the proportion of revenue which it is allowed to retain for provincial or local expenditure. The people of the Presidency cheerfully recognize that it is incumbent upon them to contribute their full quota to Imperial expenditure, but the Chamber would respectfully represent that a very strong and general feeling exists throughout the Presidency that this quota is at present unduly high, and that in consequence of this the progress and prosperity of the Presidency are to a serious extent checked through lack of funds to be expended upon local works of great public importance and in some cases of urgent necessity."

The contribution paid by the Madras Presidency is out of all proportion to the contribution of other presidencies and the provinces, and the Chamber trusts that Your Excellency's Government will take early action to remove what we regard as a serious injustice to this Presidency.

At present the municipality of our city are in urgent need of funds to complete the drainage and water-works schemes initiated by Government some years ago. Unfortunately the Madras Government are unable to render adequate financial assistance owing to shortage of funds due, in the opinion of the Chamber, to the large contribution from revenue paid by the Madras Government to the Government of India. To emphasize the necessity for immediate assistance being granted the Chamber would respectfully draw Your Excellency's attention to the disastrous and alarming death-rate in our city during the past few years. The heavy toll of life reported weekly in the mortuary returns published by the Health Officer of the municipality calls for the immediate attention of the Government of India, and for the earliest possible steps being taken to remedy matters. Even a small reduction in the local death-rate would fully justify the expenditure of many lakhs of rupees.

The taxation of the city is already very heavy, and it is hopeless to expect to raise the necessary funds by further local taxation.

GORDON FRASER.

MEMORANDUM DATED 16TH FEBRUARY 1920 FROM THE PRESIDENT,
SOUTHERN INDIA CHAMBER OF COMMERCE, MADRAS.

The terms of reference to Lord Meston's Committee are as follows:—

To advise on

(a) the contributions to be paid by the various provinces to the Central Government, for the financial year 1921-1922.

(b) the modifications to be made in the Provincial contributions thereafter, with a view to their equitable distribution, until there ceases to be an all-India deficit.

(c) the future financing of the Provincial loan accounts.

We beg to state our views on these points as under:—

(a) OUR PROVINCIAL CONTRIBUTION FOR 1921-1922.

2. The Imperial deficit on the basis of the budget figures of 1917-1918 was taken at Rs. 13.63 crores (vide paragraph 206 of the Reforms report). In April 1919, the Government of India calculated their normal deficit at Rs. 12 crores. Later calculations of all the Provincial surpluses left only a sum of Rs. 11.06 crores, and it was, therefore, assumed that the Imperial deficit would be fixed at this figure. The latest estimate of the all-India deficit, in view of the 'practical assurance' of a high exchange is stated to be Rs. 6 crores only.

3. On the basis of the standard figures of 1917-1918, the contribution from the Madras Provincial funds towards the Imperial deficit, on an all-round percentage of the difference between the gross Provincial revenue and the gross Provincial expenditure (this percentage worked out to 87) was estimated at Rs. 4.28 crores. This left a small Provincial surplus of Rs. 63 lakhs. On the basis of the budget figures of 1919-1920, the Government of India estimated the Imperial deficit at Rs. 12 crores, and subsequent thereto, on a consideration of the Provincial figures of Provincial revenues and expenditure found the aggregate provincial surplus to amount only to Rs. 11.06 crores. According to this estimate, the Madras Provincial surplus was Rs. 3.88 crores, the whole of which was presumably intended to be taken away as our contribution towards the Imperial deficit. In the beginning of this month (February 1920) the report of the Indian Currency Committee was published. The recommendations of this Committee that the rupee should have a fixed exchange value in terms of gold, at one-tenth of the gold contents of the sovereign, and that the sovereign which was till then rated by law at rupees fifteen should be made legal tender in India at the revised ratio of rupees ten to one sovereign, were accepted by the Secretary of State and the Government of India. As a consequence of this assured rate of high exchange, the Government of India have now reduced their Imperial deficit estimate to Rs. 6 crores.

At the same time, we have been informed that the Committee on Financial Relations will also examine the figures for the Imperial budget of 1920-1921, and advise the Government of India as to the correctness of the anticipated all-India deficit. We have our own doubts as to the correctness of this figure. It may after all be unreal. Possibly it may have to undergo a further modification by the time the Indian Financial Statement is issued in the next few days. When the final figures of the Imperial receipts on account of sterling exchange, and the actual saving in our sterling payments by reason of the higher exchange value of our rupee, are ascertained and made known, the estimated deficit may eventually disappear. Even otherwise, we are confident, that the deficit, if any, will be quite an insignificant amount. We are glad to learn that the Government of India have in mind the gradual diminution of the all-India deficit, by annual reductions, and its ultimate extinction. While we anticipate that the immediate deficit will be next to nothing,

we are quite confident that a little deficit, if any, may not take more than a year or two to be altogether wiped off. Under the above circumstances we do not see the need for any Provincial contributions at all.

4. If, however, any contribution, however small, is proposed to be levied, we beg that the burden may not fall on our shoulders, for we have all along borne far more than what we could reasonably bear. We ask that others who have been more fortunate than ourselves in the past, and who have all along escaped their proper share of the burden, may now be invited to lend their shoulders for a time. We have no doubt that such an invitation from the Government of India, under all the circumstances of the case, will not fail to meet with a ready and cheerful response, from the other provincial sisters of the Imperial Federation, on behalf of their afflicted Cinderella.

5. The Amended Draft Financial Statement of the Government of Madras for 1920-1921 has been published. According to this statement, which, by the way, will be the last under the existing system of financial relations between the Government of India and the Government of Madras, the total revenue has been estimated at Rs. 9.73 crores and the total expenditure at Rs. 10.89 crores. The anticipated Provincial deficit will reduce our Provincial opening balance from Rs. 2.06 crores to a closing balance of Rs. 90 lakhs.

6. We are firmly convinced that while our Provincial sources of revenue cannot any further expand without breaking the back of the poor tax-payer, the programme of Provincial expenditure anticipated in the statement, cannot be curtailed in any manner, without endangering the moral and material well-being of the province. Under the stress of successive Provincial settlements in the past, admittedly iniquitous and oppressive to this province, and latterly under the stringent limitations on expenditure due to the war, which we patiently endured as inevitable, our progress in every direction has undergone a very serious and disquieting setback. Signs of economic unrest are visible everywhere, and even the administrative machinery has been caught in the prevailing discontent. Better health, better sanitation, better water-supply, better roads, better education, better sources of livelihood and better conditions of life generally, have to be ensured to the masses as well as the classes, to reclaim them from the state of despair into which they seem to be rapidly lapsing. The high prices of food-stuffs and other commodities are aggravating the state of affairs. We do not by any means exaggerate the situation. We are anxious that the signs of the times should be understood and appreciated aright. Liberal measures of reform and reconstruction, in view to make the people healthier and happier, will have to be undertaken in no ungrudging spirit at the earliest opportunity.

7. Under the circumstances, we respectfully and strongly urge that neither can we possibly tax ourselves any more to increase our Provincial revenues, nor can we at all undertake any appreciable retrenchment in our spending programme to bring about any reduction in our Provincial expenditure. We are at present in the extremely difficult position of not having enough to provide even for our own urgent needs.

(b) MODIFICATIONS IN THE PROVINCIAL CONTRIBUTIONS.

8. This does not call for any examination in view of what we have stated above.

(c) THE FUTURE FINANCING OF PROVINCIAL LOAN ACCOUNTS.

9. We have no remarks to offer on the provisions of section 2 of the Government of India Act. The section is clear and self-contained. Our borrowing is our own domestic concern.

16th February 1920.

P. TYAGARAYA CHETTI.

MEMORANDUM, DATED 17TH FEBRUARY 1920, BY
MR. A. RANGASWAMI AYYANGAR, B.A., B.L., EDITOR, THE
"SWADESAMITRAN."

In framing the rules under the Government of India Act, 1919, on the financial side, the objects to be kept in view are—

(i) to make a division of Governmental powers so as to do away, as far as possible, with the present overlapping of functions; and

(ii) to abolish the system of divided heads of revenue and expenditure; and thus to effect a complete separation of provincial from central finance. These are the objects for ultimate and early attainment. The process has, under the scheme embodied in the Act, to be one of devolution, rather than federation. The word 'devolution' is actually used in section 1 (i) (b) of the Act in relation to the function to be entrusted to provincial Governments and section 10 (3) (a) contemplates the scheduling of specified taxes in favour of such Governments. The inference is therefore obvious that the residuary financial powers are retained in the hands of the Central Government.

2. The cardinal principle should be that each grade of Government under such an arrangement should 'pay its way' with the resources allocated to it. Under the proposals already made in this regard, Provincial Governments will be in charge of services, the expenditure on which is most certain to increase, but the financing of which will be dependent on a limited range of revenue resources. On the other hand the Central Government will retain the sources of revenue which lend themselves most readily to expansion and their powers of finding fresh sources are unlimited. It stands to reason, therefore, that if contributions from one grade of Government to the other are to be a permanent feature of these financial arrangements, they should flow from the Central to the Provincial Governments, from the authority in possession of expanding sources and residuary rights to authorities possessing limited or specified powers.

3. The attempt, however, should be to remove the necessity altogether for such contributions—as a permanent arrangement—by allocating to the subordinate authority resources sufficient not only for present needs but for future growth in existing items of expenditure and also for financing developmental schemes long over due. If Provincial Governments at any time exhaust the resources allotted to them and still require more, the policy should be to schedule fresh sources in their behalf and not to make contribution from Central resources. Two conclusions may therefore be stated in this connexion, viz.—

(1) The necessity for contributions should be avoided altogether in the ultimate permanent arrangements that are to be made.

(2) If they cannot be avoided, contributions should, speaking only from the standpoint of principle and practical statesmanship, flow from Central to Provincial rather than the reverse.

4. Though section 1 (2) (ii) of the Act recites 'that rules may provide for fixing contributions and making them a first charge on provincial revenues,' and though discussions hitherto have been conducted on the footing that contributions from Provincial to Central will have to be a normal feature in the future it is a matter for satisfaction to note that the terms of reference to the Meston Committee definitely contemplate the ultimate and early disappearance of the necessity for such contributions and the 'ultimate extinction of the All-India deficit.' We have therefore only to devise methods for determining such contributions for a transitional period—a period required for the two grades of Government settling down to the new arrangements. During this period of maladjustment of resources to expenditure in both sets of Governments, it is financial commonsense not to object on purely theoretical considerations, to the flow of contributions from provincial to central, if that is proved to be the least objectionable of the methods open for correcting the maladjustment.

5. I recognize that it is financially unsound policy to dump immediately, on Provincial Governments, resources very largely in excess of their present levels of expenditure. Such a policy is bound to encourage wasteful extravagance; for it is not always easy to force up your expenditure all of a sudden beyond a certain limit, especially on the kinds of developmental services that will be entrusted to Provincial Governments. One very objectionable result of it is sure to be the diversion of current revenues to capital expenditure on a very large scale. If the overfeeding of the Provincial Governments has the cognate result of underfeeding the Government of India, and compels the latter to resort to fresh taxation, the tax-payer—who, after all, is the common victim of both sets of Governments—is doubly injured. The Provincial Government takes more out of him than it can spend at all or can spend with advantage; the Government of India compels him to pay more for meeting its current needs, when by a proper adjustment of his present contribution to central and provincial, he could be spared the additional sacrifice. In regard to this question, the tax-payer's burden should be the paramount consideration. I am not one of those who would want to retain, from now, in Provincial hands, the whole of this large increase in Provincial resources under any circumstances whatever. Whether they go into the hands of the coming Executive councils or ministers, whether they are used for improving salaries high or low or for immature developmental schemes, there is so much risk of doing injustice to the tax-payer, already so heavily taxed in our province and unable even yet under the Reform Scheme to effectively control the purse, that I would not hand these huge surpluses to the Local Government as now constituted to spend practically as it pleases, and tell the Government of India to resort to immediate additional taxation for financing its needs. As a purely temporary arrangement, i.e., until such time as is required (a) for the Government of India to adjust its own resources to its expenditure without everburdening the tax-payer and (b) for the Provincial Governments to equip themselves adequately for efficiently and prudently spending their increased resources—and for the purpose only of covering a deficit, if any of the Central Government—I would not therefore object to the flow for a short definite term of years, of contributions of stated amounts from Provincial to Central.

6. The *raison-d'être* of such contributions is, of course, the occurrence of a deficit in the Central accounts. In the Montagu-Chelmsford Report, this deficit was estimated at 13½ crores. Later calculations brought it down to 11.06 crores. The latest calculations of the Government of India put it at 6 crores and this reduction is said to be based on the practical assurance of a high rate of exchange consequent on the orders issued on the recommendations of the Currency Committee. The acceptance of the recommendations of the Currency Committee to alter the legal ratio to Rs. 10 per the gold contents of the pound sterling, should enable the Government of India to save 12½ crores in the payment of Home charges. The Committee has stated this in so many words: "When the exchange value of the rupee was 1s. 4d. the rupee equivalent of the Home charges on the basis of £25 millions a year was Rs. 37½ crores, of which if the necessary sum were remitted at an exchange of 2s. the cost would be 25 crores only, or a saving of 12½ crores." The Committee further contemplates the desirability of employing this incidental advantage arising out of fixing a high rate of exchange in 'furthering the development of India or in the reduction of taxation.' I reserve opinion from a purely currency point of view, as to the wisdom of the policy of Government in disturbing the existing legal ratio between the rupee and the sovereign. But the step has been definitely taken and its natural result will be that there will be no deficit in the Central accounts in 1921–22.

7. It is difficult to understand how the deficit of 6 crores was arrived at by the Government of India. The latter have afforded us no enlightenment on this matter and I am therefore at a great disadvantage in offering solutions. The deficit may be the result of increased expenditure in the military or other services which the Government of India might wish to keep up permanently, taking advantage of the increased resources due to high exchange. On the other hand, it may be due to diminished receipts, for which there is little warrant. The Meston Committee should go thoroughly into the question of the correctness of the estimates on which the deficit of 6 crores has been reached.

It may be urged that the Currency Committee's figures of 12½ crores for the saving on the home charges is but an estimate, and that the actual saving is not likely to exceed 6½ crores. The Committee took the figure for remittance at 25 millions sterling. This, of course, does not all represent amounts which require to be financed out of the revenue account. Part of it is remitted for paying for capital expenditure in England on account of the Government of India and to the extent that this capital expenditure is not financed out of the revenue receipts, there will be no saving to the Government of India—so far as its current accounts are concerned—in remitting it at the new ratio to London. Mr. Findlay Shirras in his book on 'Indian Finance and Banking' puts the annual requirements for home charges on revenue account at £20,000,000 sterling and those required to meet capital expenditure at £6,000,000. Assuming that the whole of the latter is financed revenue outside the revenue account, the remittance of £20,000,000 as above, should effect a saving of 10 crores of rupees. During 1919-20 and 1920-21, the saving will probably be much larger as exchange is much above 2s. the rupee. In the absence of the calculations on which the deficit of 6 crores has been reached, I must decline to accept the correctness of the statement that there will be a deficit at all in the Government of India accounts.

8. There is, however, one aspect of this currency jugglery which we cannot ignore and which is bound to be put forth as an argument against utilizing, immediately and for some years to come, the 12½ or 10 crores that may be saved on the home charges, for covering a deficit in current accounts. The Currency Committee point out that there would be a loss involved in the revaluation, in the rupee, of the sterling investment and the gold in the Paper Currency Reserves. If the re-valuation were made at 2s. the rupee, the depreciation to be made good would amount to 38.4 crores. If the whole revenue saved in respect of the home charges could be employed for the purpose of meeting this loss, it would be recouped in about three years. The Government of India would probably urge that the saving of 12½ crores or 10 or 6 crores should be set apart, for this purpose, for three years from 1921-22.

9. My first contention in regard to this recommendation of the Currency Committee is that the loss in the ultimate will probably not amount to 38.4 crores. The actual gold backing of the Paper Currency was on 30th November 1919, 32.70 crores. In paragraph 9 of his orders on the Committee's report the Secretary of State has directed periodical sales of gold bullion to the public at the ratio of Rs. 15 to the gold contents of the sovereign until legislation is enacted altering the legal ratio for internal purposes. I suggest that full advantage should be taken of this direction to replace gold in the Paper Currency Reserves by rupees during the transition period. I recognize that though the note issue is on a rupee basis, it is desirable to have a decent quantity of gold in the currency chest. I would suggest the sale of at least 18 crores worth of gold out of the 32.70 crores at Rs. 15 to the sovereign. The loss in revaluation which will thereby be saved will be about 6 crores. There is also some amount accumulated in the Paper Currency Depreciation Fund started in 1916-17. The amount in this fund on 31st March 1918 was £1,222,569 and will probably be 3 millions sterling or 3 crores of rupees at the end of the current financial year. The loss in revaluation will be reduced in these two ways from 38.4 crores to 29.4 crores.

10. It is best, should it be feasible, to avoid this loss in the revaluation of gold and securities being financed out of current revenues—any surplus arising from which should be employed in freeing resources for developmental expenditure in the provinces or in the reduction of taxation. It seems to me to be quite feasible to do so. Three possible courses are open, viz.—

(1) To earmark increased profits during period when exchange is above 2s.—estimate 5 crores ;

(2) To draw on the Gold Standard Reserve to the extent of 12.40 crores ; and

(3) To raise a loan for the balance.

And I would suggest a combination of all three courses for the purpose.

11. The exchange is now above 2 shillings and the profits on the remittance of the Home charges, as already indicated, are bound to be even larger than estimated by the Currency Committee. That portion of the profits which is due to the rate being above 2 shillings should be earmarked for meeting the loss in revaluation. Five crores is, if anything, a modest estimate for this.

12. The total holdings of the Gold Standard Reserve—now almost entirely in securities—amount to 37.43 millions sterling (paragraph 84 of the Currency Committee's report). The object of the Reserve is to enable the Secretary of State to draw on it for his own requirements—when he is unable to sell Councils—or for payment of the Reverse Councils sold in India. The maximum amount of Reverse Councils sold in any one year was in 1914-15, for £8,707,000. To provide for twice this amount in the Reserve is sufficient prudence ; to keep treble the amount in the Reserve or about 25 millions sterling should ensure absolute safety under present conditions. Up to 1913-14, i.e., prior to the war the amount had grown only to 22.6 millions. Since the war, it has been growing gradually ; and strangely enough during a period when exchange has been rising and when it promises definitely to get fixed at about 2 shillings, we have been mounting up a reserve intended to prevent a fall in exchange. There need be no question as to the legitimacy of drawing on the Gold Standard Reserve for the purposes of financing the depreciation of the Paper Currency Reserve. In the past, the Paper Currency Reserve has been freely manipulated for supporting exchange without entrenching on the Gold Standard Reserve which was specially designed for the purpose. Now, when, owing to the manipulation of the exchange rate, the metallic and fiduciary backing for the paper currency has depreciated in value, it is certainly legitimate to place the Gold Standard Reserve in contribution for meeting a portion at least of that loss. Under present conditions and in the near future, 25 millions is a safe enough figure to hold in the Gold Standard Reserve and I would therefore transfer the whole of the amount in excess of this figure in that Fund for the purpose of meeting the loss in revaluation of the Paper Currency Reserve. This will enable us to take 12.40 millions sterling therefrom or 12.40 crores of rupees at the ratio that has now been adopted.

13. The balance of the loss in revaluation, viz., 12.4 crores may well be financed by means of a loan to be raised at once. The loan would, of course, mean an increase in the net interest charge of the Central Government of about 62 lakhs and this can easily be met out of the difference between the total saving on the Home charges and the estimated deficit.

14. The plan of financing the loss in revaluation of the Paper Currency Reserve outlined above possesses one important advantage over that suggested by the Currency Committee. It will extinguish the loss practically at once and the Reserve will comply with the statutory requirements. To spread the financing of the loss over three or more years, as suggested by the Committee, will simply mean that until the process is completed, there will not be a compliance with the law in the spirit, if not in the letter.

15. I believe I have made it clear—

(a) that as a result of the high exchange there ought to be no deficit in Central Accounts ;

(b) that what requires to be financed is the loss in the revaluation of the gold and sterling securities in the Paper Currency Reserve ; and

(c) that this can be done without drawing upon the permanent saving which on the present basis of taxation, the Central Government ought to realize over the remittance of the Home charges owing to the exchange being fixed at 2 shillings.

16. Personally, as I have already said, I should deprecate throwing at once on the heads of Provincial Governments so sudden and huge increase of resources resulting from the new scheme of separate heads—especially in Madras whose Government has throughout shown an incapacity to utilize grants and has piled up balances. They cannot be held to be ready for spending the same immediately in an efficient manner for the benefit of the tax-payer. In the case of Madras again, the increase of resources would be almost one-half over the present scale of expenditure on the Provincial services which will be entrusted to it under the new arrangements. The question may be asked as to what should be done then with the Provincial surplus

when the Provincial Government is not ready to spend all of it with efficiency. The obvious answer is reduction of taxation. But it will be difficult to do this now and put it on again two years hence, when we shall be fully prepared and will be bound, to spend efficiently all the amount now represented by the increased resources, for the betterment of the people.

17. As a measure merely of avoiding the ill-considered frittering away of large surplus balances by Provincial Governments—and not because I consider the course justifiable either on account of the Central Government's needs or on considerations of sound financial policy—I should not demur to the alternative course of contributions being levied from the Provincial Governments for the purpose of meeting the net loss of 12·40 crores in revaluation of the Paper Currency Reserve referred to above. It is not, of course, possible for the provinces to contribute the whole of this amount at once in 1921–22, without detriment to the financing of legitimate expansions in their expenditure to be provided for in that year. I would distribute the contributions over three years at the rate of about four crores a year. In 1921–22, the Central Budget should provide for a contribution of this amount and for a loan of the balance of eight crores. Four crores of the loan should be repaid in 1922–23 by means of the provincial contributions and the remaining four in 1923–24. Thereafter there will be no contributions at all.

The total annual amount of 4 crores should be distributed rateably among the provinces. In view of the fact that the contributions will be absolutely fixed both in amount and in their term, the principle of distribution stated in the Montagu-Chelmsford report, viz., to base it on the gross surplus of each province is as good as any other. There is no doubt that provinces like Madras, the United Provinces and the Punjab will pay more than other provinces; but reasons can be urged from a financial point of view as to why they should, not the least of these being their financial cowardice in the past, their want of efficiency in spending and their over-zeal in squeezing as much as possible out of the tax-payer.

The contributions from the different provinces will then work out roughly as follows:—

	LAKHS.
Madras	125
Bombay	25
Bengal	23
The United Provinces	97
The Punjab	63
Burma	50
Bihar and Orissa	10
The Central Provinces	10
Assam	5
	408

It will be seen that even on the basis of this contribution the Madras and the United Provinces, for instance, will be left immediately with a surplus of three and two crores respectively, the proper utilization of which by the Ministers and Executive Councillors in relief of the tax-payer and in aid of developmental expenditure on education and sanitation demands the anxious and jealous watchfulness of the tax-payers and their representatives in the coming Councils.

17th February 1920.

A. RANGASWAMI AYYANGAR.

MEMORANDUM DATED THE 16TH FEBRUARY 1920 BY PROFESSOR GILBERT SLATER.

I am glad that the Government of India's budget will be examined by the Committee with a view to checking its estimates of the probable deficit. With regard to the information that the Government of India has reduced its estimate of the deficit by six crores in consequence of its realisation of the position of exchange, it would be interesting to know what were its original and revised estimates of the average exchange value of the rupee for the year 1920–21. I imagine that its revised estimate is 2s., and I presume that its previous estimate was about 1s. 7d., which would make a difference of about six crores in the sum required for home charges. But it occurs to me as possible that its original estimate was lower than 1s. 7d., and that it is taking part of the money saved in estimated home charges for increased expenditure in other directions.

2. The matter of home charges and the exchange value of the rupee does not however end there. As the result of the Currency Commission Report the rupee cannot in future fall below 2s., and must always be above 2s., as long as British paper money is at a discount, by an amount proportional to that discount. Now the rehabilitation of treasury notes must necessarily be a somewhat slow and difficult process, and therefore it would be very foolish to hope that it can be effected so quickly as to bring the average exchange value of the rupee during the year 1920–21 below 2s. 4d. If the Government of India's revised estimate for exchange value is 2s., an actual average value of 2s. 4d. would provide an additional saving of three crores approximately on home charges, thus wiping off half the Government of India's expected deficit. Further, in view of the fact that the condition of India's trade is one of rapid development and all things are in a state of flux, it would have been impossible for the Government of India to frame any very close estimates of such things as railway revenue, customs, and the assessed taxes. It has no doubt framed its estimates in a cautious and conservative spirit. I therefore shall personally be greatly surprised if estimates of these three sources of revenue are not exceeded in actual practice by over three crores.

3. In these circumstances, it becomes a crucial question whether the Government of India intends to levy contributions upon the Provinces in order to meet *estimated* deficits, or only to meet *actual* deficits after they have been found to exist in reality.

4. A cursory examination of the statistics brings forward in very forcible manner the much higher degree of elasticity of the revenues which are assigned to the Imperial Government. The growth in six years appears as follows:—

	1913–14 (millions of £).	1919–20 (millions of £).
* Provincial.		
Land Revenue	22·3	22·6
Excise	8·8	12·1
Provincial rates	·2	·0
Forests	2·22	3·35
Total	33·52	38·05
* Imperial.		
Opium	1·6	3·0
Salt	3·4	3·9
Customs	7·5	13·3
Assessed taxes	1·95	13·5
Tributes	·6	·6
Posts and Telegraphs (less expenditure)	·3	1·1
Mint (less expenditure)	·2	1·0
Railways (less expenditure)	4·8	10·15(1918–19).
Total	20·35	46·55

* The figures are very rough and approximate.

5. This great elasticity of the Imperial revenues has not resulted in surpluses of the estimated Imperial revenues over Imperial expenditures, purely because military expenditure has more than doubled during the same period. But we may hope that military expenditure will tend somewhat to diminish in the future, or at the worst to remain stationary; while quite apart from any increased rates of taxation the income from customs and the assessed taxes is bound to increase with very great rapidity. So far as income tax is concerned the increase is from a complication of different causes. Taxable incomes are themselves growing very rapidly; the efficiency of the tax collecting agency is continually being enhanced; and there is further a transition, due to the increase of big business and joint stock companies, in the manner in which incomes reach their possessors, whereby the evasion of taxation is made much more difficult. Similarly with regard to customs we have to note, on the one hand, the great increase in the world's shipping which must reduce freights by degrees and greatly stimulate imports and exports; the greater purchasing power and higher standard of living of the people of India (also increasing exports and imports); and the fact that we may almost say that a new science of taxation is developing in the form of taxation of exports of food and raw materials from countries which have special advantages for their production (which the Government of India is profiting from). Hence, for a good many years to come, it may be anticipated that year by year the Government of India will be in a more favourable financial position, and before long will be rather in a position to make grants to the Provinces, than needing to exact contributions from them. Therefore no contributions, except as loans, for one or two years only, appear to be required from the Provinces.

16th February 1920.

GILBERT SLATER.

MEMORANDUM, DATED 16TH FEBRUARY 1920, BY DIWAN
BAHADUR M. RAMACHANDRA RAO.

The first question for consideration in connexion with the separation and classification of the sources of revenue between the Imperial and Provincial Governments is as to whether it is desirable for the Government of India to levy contributions from Provincial Governments in normal years. I take the view that the system of finance that should now be introduced should be such as to make the Central Government absolutely independent of the provinces and that no contribution should be levied from them except to meet emergency expenditure such as the cost of a war. I also think that the sources of revenue at the disposal of the Government of India lend themselves most readily to expansion. Even apart from this consideration additional taxation in the provinces will be a matter of extreme difficulty, the two main sources—Land Revenue and Excise—having been already sufficiently tapped.

ADDITIONAL IMPERIAL TAXATION VERSUS PROVINCIAL CONTRIBUTION.

2. If additional taxation is necessary in India during the next ten years for the development of the country and if a choice were given to me whether I would raise the necessary revenue from Provincial sources or from sources at the disposal of Government of India, I shall have no hesitation in supporting the latter proposal. The difficulties of working the new Local Governments will tax the energies on the Provincial administrations. I, therefore, think that any financial system now introduced should be elastic enough as not to drive the Local Governments almost immediately to resort to additional taxation—which after all will have to be mainly derived from land and excise.

The deficit of the Government of India as now estimated has been reduced from 1,863 lakhs to six crores of rupees and it may be possible, on the further examination by the Committee on Financial Relations, to reduce it still further. I believe that the substantial reduction in the amount of the Imperial deficit will now make it possible to meet that deficit by Imperial taxation. This will relieve the provinces at the outset from financial difficulties. Unless some such step is taken the position of the Provincial Governments like Bengal, Bombay, Bihar and Orissa, Central Provinces and Assam would be extremely difficult. The margin between the gross revenue and expenditure as now classified will be so little that they will have no resources at their disposal for the development of their provinces. The following table will explain the financial position:—

CONTRIBUTION.

	Gross revenue.	Expenditure.	Gross provincial surplus.	On the basis of gross Provincial surplus (method adopted in the Reforms Report—paragraph 20c).	Per capita basis.	Gross revenue basis.	Gross expenditure basis.
	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.
Madras ...	1,442	1,055	387	211	104	118	101
Bombay...	1,148	1,099	49	27	49	93	105
Bengal ...	773	792	— 19	— 10	115	63	76
United Provinces	1,207	863	344	187	118	98	88
Punjab ...	962	733	229	125	49	79	70
Burma ...	812	721	91	49	27	66	69
Bihar and Orissa	415	418	— 3	— 2	87	34	40
Central Provinces	421	414	7	4	35	34	40
Assam ...	179	163	16	9	16	15	16
Total ...	7,359	6,258	1,101	600	600	600	600

3. From this it will be seen that even if the contribution is reduced to six crores and is raised on the provincial surplus as proposed by the Government of India two provinces will immediately have to meet a deficit and the margin in all other provinces except Madras and the United Provinces will be comparatively little. If the

contribution is levied on a per capita basis of population or on the gross revenue basis or the gross expenditure basis most of the provinces will have to levy additional taxation almost immediately. I think, therefore, that if from the outset it is possible to devise a scheme which will not drive the Provincial Governments to this step, I would unhesitatingly support a scheme for imperial taxation to make up the deficit of the Government of India.

THE LOW STANDARD OF EXPENDITURE IN MADRAS.

4. The unfavourable settlements with Madras and the prudential character of its financial administration have resulted in establishing a low standard of expenditure in this province. The only other province with which this province can be compared is Bombay. The standard of expenditure in Bombay at the present day may be judged by the fact that with a population of 19 millions, its expenditure as now proposed by the Government of India would be 1,099 lakhs as against 1,054 for Madras with a population of 41 millions.

COMPARISON WITH BOMBAY.

As to how this high standard of expenditure was established in Bombay may be seen from the evidence * of Sir Herbert Risley before the Royal Commission on Decentralization. He informed the Commission that the Government of Bombay was so importunate in its demands that for the sake of peace, the Home and the Financial Departments made concessions which they would not have made to other provinces which were not equally importunate. In his opinion the importunity of Bombay was such that it got more than the other Provincial Governments from the Government of India. I venture to draw attention to these facts because in starting a new financial system for the provinces, some attempt should be made to redress inequalities.

REDRESSING INEQUALITIES.

5. I have no desire to minimise the difficulties but I think that an attempt may be made to establish a uniform standard of expenditure at least in regard to education. It is desirable that all provinces should aim at as high a standard of educational progress as is compatible with their finances. In arriving at standards of expenditure for each province, credit must therefore be given to each province for expenditure on education on the basis of the figures for Bombay. The total educational expenditure in Bombay is 130.67 lakhs and this works out to Rs. 10-7 per head of population as against Rs. 4-9 in Madras. I would suggest that all provinces should be put on the same level in regard to educational expenditure and that in calculating the standards, the Bombay rate of Rs. 10-7 per capita should be allowed for all other provinces. This will go some way in removing the inequality that now exists and will enable all provinces to make an equal start, as far as possible, in education, irrespective of their present scale of expenditure.

NORMAL EXPENDITURE IN MADRAS.

6. The next point for consideration is as to whether the provisional figure of 1,054 lakhs proposed by the Government of India as the standard expenditure for this province should be accepted as satisfactory. As already explained the low standard of expenditure in Madras is due to the terms of the past and present financial statements as also to the economical financial administration of the Government of Madras. I believe that 1,054 lakhs should not be regarded as an adequate estimate for the normal expenditure for this Presidency.

THE CORRECT BASIS.

7. While I concede that a uniformity of standard for all provinces should be aimed at, I do not think it would be right to include in the normal figures for Madras only such expenditure as has been actually sanctioned or under sanction at the present day. I think the correct principle that should be applied is not whether the expenditure has actually been put on the budget of this year, but whether the proposed expenditure is required in the immediate future and whether it has been

under consideration by the departments of Government for several years and to which the Government is practically committed by previous statements in the Legislative Council. I contend that if the expenditure comes under these categories it must be included in the estimate for the province. I will refer to a few points which will clearly show the position of affairs. In this Presidency the question of the adequacy of the salaries paid to subordinate Government servants has been under consideration for several years. A conference of selected officials and non-officials held at Ootacamund in October 1913 made certain recommendations of a general character for revising the pay of low-paid Government servants and as a consequence the emoluments of the employees in several departments were revised before the close of 1914. Owing mainly however to the prevalence of war conditions and the necessity for all possible economies in the scale of Government expenditure, it was not possible to proceed with the introduction of the scheme of revision in respect of all the departments on the lines of the recommendations of that conference. The situation created by large increase in the prices of the necessities of life which has been a marked feature since 1918 has however been met by a system of special war allowances, but the Government of Madras considered that such a system cannot be continued indefinitely.

THE SALARIES COMMITTEE.

In their opinion the changed conditions have rendered a readjustment of salaries essential and with this object in view they have appointed a Salaries Committee of which I am a member to examine generally the adequacy or otherwise, under present conditions and in the near future of the rates of pay of Government subordinate and menial establishments including village officers and all others whose cases were not dealt with by the Royal Commission on Public Services in India. This Committee was appointed in 1919 and is now sitting and has come to various tentative conclusions; under the directions of the Government they have forwarded certain recommendations in advance for affording temporary relief pending submission of their final report which is due before the end of March next. It is not now possible to give an accurate forecast of the annual expenditure to be added to the budget in accordance with the recommendations of the committee. But although the report has not as yet been submitted I feel it incumbent on me to press that the increased expenditure which must result in consequence of the recommendations of the Salaries Committee should be placed in the category of expenditure to which the Government is committed from next year. In no sense can this expenditure be regarded as a future commitment for which no provision need be made in the estimate. A copy of G.O. No. 766, dated 24th October 1919, which contains the terms of reference to this committee is herewith appended. (Sub-Enclosure.)

SOME ITEMS OF EXPENDITURE.

8. A few points based on the findings of the Salaries Committee for a few departments are noted below:—

Land Revenue.—The proposals for the improvement of the pay of the village officers and menials have been made from time to time and the question was frequently brought up in the Legislative Council during the last ten years. The Government admitted more than once the necessity for revising the pay of this class of public servants and the Salaries Committee has discussed the question and has adopted provisional resolutions by which the minimum pay of some village officers and menials has been raised and final conclusion has not been reached as yet in regard to another class of village officers. If these proposals are accepted, a sum of about 80 lakhs of rupees will have to be added to the expenditure side of the budget under Land Revenue. Besides these additions the committee have also recommended that the minimum pay of all clerks in Government employment should be raised to Rs. 30 and that of all the peons to Rs. 12 per mensem. It is impossible to form an estimate of the increase that will be entailed by these proposals in the various departments of the Government. Various other proposals relating to the increase of rates to the travelling allowances of Government servants have been made from time to time and the Board of Revenue have suggested to the Salaries Committee

* Answer to Question 45598 on page 170 of Vol. X of Decentralisation Commission's Report

that the travelling allowances of the subordinate establishments of the Government may be increased by 50 per cent over existing scales. The Salaries Committee have agreed to make recommendations more or less to the above effect. This expenditure is essential and from the history of the subject, is such that the Government must regard themselves as having been committed to it and is by no means prospective. Moreover there are various proposals in regard to the creation of new districts in this Presidency which have been pending for years. I see that the normal figure provisionally proposed by the Government of India makes an additional provision of only ten lakhs of rupees under Land Revenue over the budget figures for 1919-20. This is hardly sufficient. The result of all these various recommendations of the Salaries Committee is that the expenditure under Land Revenue will, if they are accepted by Government, be increased over the provisional figures of the Government of India by at least about 90 lakhs in 1920-21.

Educational.—The figure provisionally proposed under this head is 1,29,00,006 whereas the budget estimate for 1920-21 provides for 1,39,00,004. The additional expenditure probably covers sanctioned schemes but various proposals have been discussed in the Legislative Council during the last ten years to which the Government is practically committed.

The Director of Public Instruction has suggested a time scale of pay for Sub-Assistant Inspectors at 75—10—175, 175—10—250 for immediate acceptance. He has also suggested to the Salaries Committee that a great deal of discontent exists in the subordinate educational service—collegiate branch—a question which was discussed in the Legislative Council more than once and he has proposed a revision of the scales now existing. Besides these two matters the Salaries Committee has come to the provisional conclusion that qualified elementary teachers should receive Rs. 30 as a minimum salary in the future. The pay of elementary school teachers has been a subject of discussion in the Legislative Council for years and the Salaries Committee has been asked to consider the adequacy of the pay of this class of public servants. If the recommendations of the Salaries Committee are accepted by Government, it is estimated that a sum of about 50 lakhs of rupees would be required for financing these proposals. The expenditure under education on the proposals of the Salaries Committee and in giving effect to the promises made for the expansion of Medical and Engineering education in this province cannot be anything less than 60 lakhs of rupees over the provisional figure of the Government of India. This expenditure must be regarded as immediate and in no sense prospective.

Medical.—The question of regrading the pay of sub-assistant surgeons and of merging the various allowances drawn by them in their pay has been a subject of consideration for a long time. The Government have accordingly referred the question of regrading the salaries of sub-assistant surgeons to the Salaries Committee for consideration. The Salaries Committee has reached some provisional conclusions and though the financial effect of these proposals cannot be accurately estimated at present I have no doubt it would be a considerable amount. Besides, the construction of a General Hospital at a cost of nearly 50 lakhs of rupees to which the Government are committed will entail considerable expenditure both recurring and non-recurring and I believe under these circumstances the provisional figure of 42.11 proposed by the Government of India will have to be raised at least to 50 lakhs. This expenditure must also be regarded as immediate and in no sense prospective.

Public Works.—The Government of India authorized the reorganization of the upper subordinate staff but it was not carried out on account of the war. In regard to the lower subordinate staff the Chief Engineer has proposed a starting pay of Rs. 50 and a starting pay of Rs. 80 for upper subordinates. This will also involve a suitable rearrangement in these two grades in these two services. No decision has yet been reached by the Committee.

OTHER PROPOSALS.

9. There are various other proposals such as the question of the recruitment of graduates at a higher initial salary for an upper division and the appropriate initial salary, the appropriate salaries of men of the grades in the various departments of

the Government corresponding to Revenue Inspectors, Deputy Tahsildars and Tahsildars, the cases in which it is desirable to adopt an incremental or time-scale system or an arrangement of grades and various questions relating to special allowances and for special localities and so on. It is impossible at present to accurately work out the financial effect of all the proposals and the recommendations which the Committee has made and is making before the end of this financial year are of such a character as to necessitate their being given effect to by the Government in the course of the next official year. On a modest estimate of these proposals I consider 150 lakhs should be added to the provincial figure of 1,054 lakhs of the Government of India. The normal figures of revenue as now classified provisionally proposed by the Government of India is 1,441.44 and if this expenditure which is inevitable from next year is added to the provisional figure of 1,054 lakhs proposed by the Government of India the surplus from this province would be about 241.57 lakhs.

THE FORECAST OF PROVINCIAL EXPENDITURE.

10. The reorganization of local finance has been urged in the Legislative Council for some years and it has been advocated that a definite portion of the Excise Revenue or some other head of growing revenue should be set apart for distribution among local bodies. The question was raised when the City Municipal Act was under discussion last year. The Government have expressed their sympathy with this financial reform and the Bill was passed on the distinct assurance of the Government that a representation would be made to the Government of India in favour of such allocation of Provincial funds to augment the resources of local bodies. The question will again be mooted in connexion with the discussion of the District Municipalities Bill now under consideration. I think, therefore, that any resources now set apart for the province should provide for some allocation under this head from the Provincial revenues to local bodies.

11. If contributions are necessary, I am of opinion that of the three methods discussed, I would prefer a contribution from each province based on the per capita basis. A contribution based on the gross revenue basis and a contribution based on a gross expenditure basis are, in my opinion, unsound. The gross revenue now available in each province is based on unequal financial settlements in the past and the present gross expenditure in each province has been established by the enterprise and importunity of Provincial Governments like those of Bombay. To my mind, a contribution based on the population of each province to make up the Imperial deficit is about the most equitable method of levying the necessary funds from the provinces.

THE PROVINCIAL LOAN ACCOUNT.

12. The third point of reference to the Committee relates to the question of the future financing of the Provincial Loan Account. The point raised is of the utmost importance to the future progress of this Presidency. The total of all these loans outstanding amounts to 114.17 lakhs. The question for consideration is not merely as to whether the Local Government should take over the outstanding loans but as to how the future requirements by way of loans in this province should be met. The loans that are required in this province may be divided broadly into three classes—

- (1) Loans for productive irrigation works.
- (2) Loans to local bodies for railway construction and for sanitary and drainage schemes and other objects.
- (3) Loans for the benefit of cultivators.

MAJOR PRODUCTIVE WORKS.

In regard to major productive and protective works, I do not know what the exact position hereafter will be. In discussing the question of borrowing by Provincial Governments the authors of the Montagu-Chelmsford Report state in paragraph 211 that "a new argument for the further liberty of action is afforded by our proposal to provincialize irrigation works, on which a large capital expenditure is necessary." The amount required for major productive works has been hitherto placed in the

Imperial programme for irrigation and as major productive works have not hitherto been treated as Provincial, the financing of major productive works in this Presidency has been hitherto a concern of the Government of India and the required funds have been found from the irrigation budget of the Government of India. As major irrigation is hereafter to be a Provincial subject, I presume that the financing of the irrigation projects in this Presidency will hereafter be a matter for the Local Government. In this Presidency, numerous irrigation projects for which accounts for capital outlay are maintained have been constructed with loan funds.

The outlay on Class I Major Productive Works and Class II Minor Works and Navigation, works for which capital and revenue accounts are kept, has run to several crores of rupees. The Cauvery reservoir project and the Kistna reservoir project, which have been under investigation for several years, will cost several millions if put in execution. There are numerous projects under investigation in this Presidency and attention is invited to paragraph 242 of the Report of the Irrigation Commission for the programme of State irrigation works sketched out by that Commission for this Presidency. Some of these works have been undertaken but a great deal remains to be done. Besides these works referred to above, the Irrigation Committee estimated an outlay for one crore ninety-five lakhs of rupees as the amount required for completing the Tank Restoration Scheme. They suggested an annual expenditure of 26 lakhs per annum for the completion of the Tank Restoration Scheme within fifteen years (vide paragraph 260, Part II, Provincial Report of the Indian Irrigation Commission). Some slight expenditure has no doubt been incurred during the last fifteen years, but a great deal of restoration still remains to be done. It was also estimated that the detailed irrigation works suitable for famine relief were available at the time when the Irrigation Commission reported and these were estimated to cost 6 crores of rupees.

LOANS TO DISTRICT BOARDS AND MUNICIPALITIES.

13. The second class of loans are those that are required by local boards and municipalities. Under the existing law the Local Government has reserved to itself the power of sanctioning these loans and no loan can now be raised by a district board or municipality without the previous sanction of the Local Government. This exercise of control is due not merely to the necessary administrative control of the central authority as to the soundness of the scheme proposed to be financed by the loan but is also dictated partly by the financial considerations of the Government of India.

THE POSITION OF LOCAL BODIES.

The reasons for this present limitation have been explained to the Royal Commission on Decentralization by * Mr. J. S. Meston (now Lord Meston) as follows: "The main reasons why the Government of India has reserved the power of sanctioning these operations are two-fold:—

"(a) to secure that the loans do not clash with the Government's own borrowings; and

"(b) to prevent the loans from being raised on terms which will be found unduly onerous in future.

"The first of these points is an essential condition of borrowing by public corporations. The loan market in India is limited in capacity, and the Government of India, as representing the general tax-payer, must claim priority over other public borrowers. To allow a municipality or a Port Trust to skim the market before the Government raises its annual loan would clearly not be in the best interests of the country at large, and Government must have a general power to regulate the times at which, and the conditions on which, a local body call for tenders. The second reason why the Government of India wish to control the floating of local loans is in the interest of the borrowing corporations themselves. It is sometimes argued—and Local Governments are apt to press this view—that the local authorities are the best judges of their own interests. Unfortunately, this is not confirmed by many of the actual cases which come up for decision. I may, perhaps, be permitted to give one or two concrete examples.

* Answer to question 44867 on page 127 of Vol. X of the Decentralisation Commission's Report.

"The fact is that in nearly all public Corporations in India there is an influential element who are strongly biased in favour of the reduction of the present rates of taxation, whatever the effect on the future may be. This view, plausibly disguised, is persistently forced upon the Local Government, who are naturally anxious to support local interests; and the result frequently is that the Government of India are the only authority in the position to form a detached and impartial judgment. I think that the existing rules might suitably be relaxed to the extent of letting Local Governments sanction the raising of loans in the open market for amounts not exceeding five lakhs and for terms not exceeding 30 years."

Whether this state of things should continue is a matter for consideration.

DISTRICT BOARD RAILWAYS.

Even apart from it the development of the work of the local bodies in this Presidency has been much hampered in the past more especially in the matter of constructing district board railways. There are now matured projects for railway construction by district boards, the estimated cost of which is something like 5 crores of rupees. All these projects were pending before the war. Till 1908, the Madras Government were permitted by the Government of India to place the requirements of this province for the construction of district board railways on the Provincial Loan Account. In that year the Secretary of State gave a new ruling by which it was held that the funds required by District Board lines should not be placed in the Provincial Loan Account. In consequence of this ruling the financing of District Board railways became a matter of almost insuperable difficulty. Various attempts have been made by the Local Government to help the District Boards for raising loans in the open market, but all these have proved useless. Sir Harold Stuart and the late Mr. Gillman made various attempts to induce the Bank of Madras to float the loans, but nothing has come out of these efforts.

The district boards are now levying a cess of 3 pies per rupee for railway construction and the special cess is now being collected in the districts of South Arcot, Coimbatore, Cuddapah, Ganjam, Gōdāvari, South Kanara, Kistna, Kurnool, Madura, Nellore, Ramnad, Salem, Tinnevely, Trichinopoly and Vizagapatam. These boards are collecting every year about 16 lakhs of rupees under this head and the cess accumulations by the boards now amount to nearly 100 lakhs.

In regard to municipalities also, the schemes for the drainage and water works, which are more or less in an advanced stage for execution, amount to nearly 3 crores of rupees. I have so far indicated the immediate requirements of this province in the matter of loans for major productive works and for district board railways and for sanitary and drainage schemes.

POSITION OF LOCAL GOVERNMENT IN THE MONEY MARKET.

15. The question is whether the Local Government will be in a position to raise these loans in the open market. Section 2 of the Government of India Act no doubt lays down that the Local Governments shall have the power to raise the money on the security of their allocated revenues and to make all proper assurances for that purpose. Provision has also been made for the framing of rules laying down the conditions under which the power to raise the loans on the security of the allocated revenues shall be exercised. The question of Provincial borrowing has also been discussed fully in paragraph 211 of the Montagu-Chelmsford Report. In the first place, I consider that there are very little local resources in this Presidency which could be tapped by Provincial loans. The case of Bombay and Calcutta is entirely different, where the money market is much more responsive to Indian loans than Madras has ever been. The condition of commerce and trade and general financial conditions are much more satisfactory than in this Presidency. This is a reason sufficient in itself for holding that, even if the Government of this province utilizes the powers conferred by section 2 to the fullest extent, there is not much chance for floating the loans required for the development of this province. I believe the Government of this province will have to go to Calcutta or Bombay to float its loans. Apart from these considerations, I also believe that the rules which will be framed under the

Government of India Act would prevent the Local Governments from competing with the Government of India in the open market till its requirements are satisfied. Even if there were no such rules it is extremely problematical whether the Local Governments would be able to float their loans successfully.

LORD MESTON'S VIEWS IN 1908.

These difficulties have been explained* in the following terms before the Royal Commission on Decentralization by Mr. J. S. Meston (now Lord Meston):—

"In regard to the grant of borrowing powers to Local Governments I think that there are very strong objections to giving them access to the open market. In the first place no Local Government could offer a security for its loans equal to that of the Government of India; it therefore follows either that they would be compelled to pay a higher rate of interest than the Government of India pays now, or that they would have to raise their loans at a larger discount. Secondly, it would be impossible for the Government of India to allow any Local Government to default in the service of its loans. If in consequence of mismanagement or misfortune a Local Government was unable to provide the requisite funds, the Government of India would be forced to intervene and make the necessary provision. In other words, there would be a virtual guarantee at the cost of Imperial revenues; and as this guarantee would not be formal and would not be announced, we should get no return for it, or at best an inadequate one. Even if the guarantee were formally declared, the loans would not be floated on terms as good as if they were raised by the Government of India direct. Our experience with guaranteed railway loans affords ample corroboration of this statement. Thirdly, if Local Governments were allowed to float their loans independently, difficulty would certainly arise both with the Government of India and between themselves with reference to the time, and perhaps the place, of issue. Every Government would wish to issue its loans at the most favourable season, i.e., between the middle of June and the end of July. Such loans would certainly collide with Imperial loans. We have already had considerable trouble of this very nature in connexion with the issue of loans by Port Trusts and Presidency Corporations, the amount of which is very rapidly growing. It has been suggested in the Press that, if Local Governments were empowered to raise Provincial loans, they would be able to proceed more rapidly than at present with local public works; and the case of the irrigation programme in Bombay has been cited as an illustration. This idea rests on a misapprehension. The anticipated result could only ensue, if the aggregate sums borrowed by the Imperial and Provincial Governments taken together were larger than that which the Government of India alone is able to borrow, under the existing system. Now the sums which we could usefully spend on productive works are so much greater than that which it is possible to borrow that we are under strong and unceasing inducements to borrow year by year the very utmost sum that the market will supply on reasonable terms. Of course, the Government of India are not infallible, and it is quite possible that miscalculations have been made occasionally; but the Government of India are most unquestionably in a far better position to estimate what the market will give than a series of isolated Local Governments could hope to be. Our loans are subscribed almost entirely at Calcutta and Bombay, subscriptions from other centres being of trifling relative importance. If Provincial Governments raised their own loans, every Local Government except those of Bengal and Bombay would have to tap a market of which they had no first-hand knowledge. I do not believe that more money can be raised in India unless we are prepared to pay a higher price for it; and for any given amount, the price will be lower if it is raised by the Government of India than by the Local Governments. I would also point out that the cases in which a Local Government would require or be justified in raising permanent debt are not really very numerous."

These arguments hold good to-day as much as when they were made in 1908. I therefore think that there is not much chance of the necessary funds for development purposes being found by loans floated by the Local Government.

* Answer to Question No. 45310 on page 148 of Volume X of Decentralisation Commission's Report.

THE GOVERNMENT OF INDIA AND THE PROVINCIAL LOAN ACCOUNT.

16. I suggest therefore that the Provincial loans required in this province for productive works and on behalf of local bodies and municipalities are beyond the resources of the Local Government. Under these circumstances it is absolutely necessary that the Local Government should continue the Provincial Loan Account with the Government of India and that the annual requirements of the Local Government and of local bodies should be obtained along with borrowing of the Government of India. The authors of Montagu-Chelmsford Report seem to suggest that the Government of India should annually borrow the amounts required by the Provincial Governments and that there should be an annual distribution of the borrowings of the year by a small committee on which the Central and Provincial Governments are represented. I agree with the plan thus generally indicated.

A NEW STATUTORY BODY.

I would go further and suggest that a statutory body like the Public Works Loan Commissioners constituted for the United Kingdom under 38-39 Vict., c. 55, and 50 and 51 Vict., c. 16, should be brought into existence and that they should have in their hands a definite amount of the borrowings of the year in India and that they should be empowered to dispose of all the applications for loans by Provincial Governments and local bodies in this country. The new financial system will not be complete without adequate facilities being afforded to local bodies and to Local Governments for obtaining the necessary funds for developmental purposes on comparatively cheap rates of interest.

17. I will summarize my views as follows:—

(1) It is desirable that from the outset a financial system should be devised which will enable Imperial expenditure to be met from Imperial revenues, without any contributions from the provinces.

(2) It is essential that the new Provincial Governments should not be driven to resort to taxation before they have had time to settle down to work and in some of the provinces, the contributions cannot be paid without fresh taxation even on the assumption that the deficit is only 6 crores. It is therefore desirable that any deficit of the Government of India should be met from the very beginning by Imperial taxation, if necessary.

(3) If contributions are necessary, some attempt should be made to redress inequalities in the existing standard of expenditure in the various provinces and that, at any rate, in the matter of education, the Bombay standard of expenditure per capita should be allowed for each province.

(4) In regard to this province the provisional figure of 1,054 lakhs suggested by the Government of India cannot be accepted and in view of the various proposals for revising the pay of subordinate establishments which have been under consideration for ten years, the expenditure recommended by the Salaries Committee must be regarded as immediate and that for that purpose the provisional figure should be raised to 1,200 lakhs.

(5) That a contribution per capita of population in each province is the most equitable method of meeting the Imperial deficit if it is necessary to levy contributions.

(6) The Provincial Loan Account should not be taken over by the Local Government but that a loan account should be opened with the Government of India.

(7) That a body similar to the Public Works Loan Commissioners should be established in India and that ample facilities should be afforded to Provincial Governments and local bodies to borrow at cheap rates of interest.

16th February 1920.

M. RAMACHANDRA RAO.

Sub-Enclosure referred to in paragraph 7 of Diwan Bahadur M. Ramachandra Rao's Memorandum.

G.O. No. 766, Financial, dated 24th October 1919.

The Government have been bestowing special attention in recent years on the question of the adequacy of the salaries paid to subordinate Government servants in the various departments of this Presidency. A conference of selected officials and non-officials held at Ootacamund in October 1913 made certain recommendations of a general character for revising the pay of low-paid Government servants and as a consequence the emoluments of the employees in several departments were revised before the close of 1914. Owing mainly however to the prevalence of war conditions and the necessity for all possible economies in the scale of Government expenditure, it was not possible to proceed with the introduction of the scheme of revision in respect of all the departments on the lines of the recommendations of that conference. The situation created by the large increase in the prices of the necessities of life which has been a marked feature since 1918 has however been met by a system of special war allowances but the Government consider that such a system cannot be continued indefinitely. In their opinion the changed conditions render a readjustment of salaries essential and with this object in view they have decided to appoint a 'Salaries Committee' to examine generally the adequacy or otherwise under present conditions and in the future of the rates of pay of Government subordinate and menial establishments including village officers and all others whose cases were not dealt with by the Royal Commission on Public Services in India. The Hon'ble Mr. N. E. Marjoribanks, C.I.E., I.C.S., has been appointed as the President of the Committee and the following gentlemen have expressed their willingness to serve on it as members:—

The Hon'ble Mr. J. H. Thonger;
The Hon'ble Rao Sahib T. Namberumal Chetti Garu;
The Hon'ble Rao Bahadur V. K. Ramanuja Achariyar Avargal;
The Hon'ble Khan Bahadur N. Muhammad Usman Sahib Bahadur;
Doctor Gilbert Slater.

Diwan Bahadur M. Ramachandra Rao has also been invited to serve as a member of the Committee.

2. The Committee is requested to consider and make recommendations on the following specific points:—

- (1) the mode and rate of payment of village officers and menials; and the grant of subsistence and travelling allowances to them when called on duty outside their villages;
- (2) the appropriate starting pay at the normal prices of the present day of (a) a peon and (b) clerks and copyists;
- (3) the question of provision for the recruitment of graduates at a higher initial salary for an upper division and the appropriate initial salary;
- (4) the appropriate salaries for men of the grades corresponding to revenue inspectors, deputy tahsildars and tahsildars;
- (5) the cases in which it is desirable to adopt (a) an incremental or time-scale system and (b) an arrangement of grades;
- (6) a comparison of the salaries paid in different departments to officers of the grades roughly corresponding to those mentioned in clause (4) supra and an examination of the reasons why the salaries are higher in some departments than in others and of the adequacy of those reasons;
- (7) the adequacy of the pay of elementary school teachers, and of the rates of stipends granted to the several classes of teachers while under training;
- (8) the circumstances which in this Presidency justify special allowances either for special classes of work or for work in special localities, and the extent to which the existing allowances can be merged in salaries;
- (9) the conditions under which a temporary addition should be made to salary on account of high prices, the limit of salary to which such addition should be made, the nature and amount of the addition desirable and the method according to which it should be calculated;
- (10) whether in view of the very high rate of house-rent now required to be paid in the Presidency town and in certain district headquarters such as Madura, it is necessary to provide peons and clerks with quarters at Government expense or to grant them special allowances to meet house-rent or to make liberal advances on a co-operative basis for the purpose of building houses on suitable free sites;
- (11) whether any increase in the rates of travelling allowances of Government servants of the classes in question is necessary;
- (12) whether shorthand-writing and type-writing should be provided for by special appointments or by giving allowances to all clerks who qualify; and
- (13) the general directions in which any increased cost that may be necessary can be met by a reduction in numbers or in any other way.

The Committee is also requested to consider in the first instance the question of the temporary relief, if any, necessary in the case of clerks and menials drawing Rs. 30 and less and to make recommendations in advance on the subject.

3. While the Committee will not be expected to work out detailed estimates of the cost of its proposals and will not be required to restrict that cost to any prescribed figure, the Government have no doubt that it will bear in mind the imperative necessity of making its proposals as economical as may be consistent with efficiency.

4. The Committee will be authorized in connexion with its deliberations to examine any witnesses, official or non-official, at its discretion. The President will be authorized himself to visit or to depute any member of the Committee to visit any part of the Presidency in order to make local inquiries should such a course be found necessary. The Committee will also be authorized to obtain from the departments of the Secretariat and heads of departments information on any points concerning its inquiries; the departments of the Secretariat and the several heads of departments are accordingly requested to afford the Committee all possible help and promptly to comply with all requests for information that may be preferred by the Committee.

5. It is requested that the final recommendations of the Committee may be despatched in print so as to reach the Government by a date not later than the 31st March 1920.

(True extract)

R. A. GRAHAM,
Acting Chief Secretary.

**MEMORANDUM DATED 16TH FEBRUARY 1920 BY
MR. S. KASTURIRANGA AYYANGAR, EDITOR OF THE "HINDU".**

The main question before Lord Meston's Committee is to determine the amount of contribution to be paid by Local Governments in order to meet the Imperial deficit resulting from the proposed distribution of revenue between Imperial and Provincial on the introduction of the Reforms Scheme. The Reforms Scheme contemplates that, in order to meet the expenditure required by the Government of India for the upkeep and development of services which clearly appertain to the Imperial sphere, such taxes as are levied at uniform rates throughout India according to wealth, such as Customs, Income-tax, Railways, Salt, General Stamps, Post Offices and Telegraphs, should be Imperial, all other sources of revenue being treated as Provincial. As the revenues from such Imperial taxes result in a deficit, it is proposed in the Reforms Report that this deficit should be met from contributions from the various provinces on the basis of an all-round ratio of the gross Provincial surpluses.

In the Montagu-Chelmsford Report the Imperial deficit was estimated at 13 crores, but this was reduced to 12 crores in 1919. But an examination of the budget figures for 1919-20 showed that the surplus of the Provincial Governments amounts to only 1,106 lakhs, and it was thought likely that this would be taken as the normal Imperial deficit. Recently, however, the Government of India have felt able, in view of the practical assurance of a high exchange, to reduce the all-India deficit to 6 crores. This is only an estimate of the Government of India and Lord Meston's Committee has now been requested to examine the figures of the Imperial Budget of 1920-21, and advise the Government of India as to the correctness of the anticipated all-India deficit.

If provinces are made to contribute in proportion to their surplus, Madras will have to contribute 194 lakhs out of its gross Provincial revenues of Rs. 1,442 lakhs or nearly 14 per cent of its revenues and nearly one-third of the Imperial deficit. In the Reforms Report it is admitted that Madras and the United Provinces will bear a very much higher proportion of the cost of the Indian Government than others, but the objection is overruled on the ground that it equally applies to existing inequalities which it is admitted that the scheme fails for the present to remove and that the scheme merely continues the disparity which is at present masked by the system of divided heads. In the first despatch to the Secretary of State, dated 5th March 1919, the Government of India have admitted that Madras and United Provinces are most detrimentally affected and that is not sufficient reply to say that these figures merely bring into prominence what has hitherto been disguised by the complicated financial arrangements of the past.

As stated by the Government of India, the mere disclosure of the true position makes it impossible to perpetuate the inequity and they accordingly propose that the initial contribution from the Presidencies should be recognized as temporary and provisional and that steps should be taken as soon as possible to fix a standard and equitable scale of contributions. Lord Meston's Committee will accordingly investigate and determine not only the initial contribution to be made by the several provinces to make good the Imperial deficit, but they are also to determine the equitable ultimate scale of contributions from the various provinces (whether on the basis of population, gross provincial expenditure or any other) and the stages by which it is to be reached.

Accordingly advice is sought on two points, viz., (1) the extent of the deficit and the contributions to be paid by the various provinces to the Central Government for the year 1921-22 and (2) the modification to be made thereafter in that contribution until there ceases to be an all-India deficit.

2. In the first place, the question is, whether the estimate of the deficit as arrived at by the Government of India, namely 6 crores, is correct. The deficit of 13 crores estimated in the Joint Report was based on a calculation of the Home charges at an exchange rate of 1 *sh.* 4*d.* According to the recommendations of the Currency Committee on this matter which have been accepted by the Secretary of State, as long as the British paper money is at a discount the Rupee is to be 2 *sh.*; in other words it will rise to a maximum which may very likely reach 3 *sh.* and will probably be reached soon and then oscillate, gradually declining until the permanent level of 2 *sh.* is reached, simultaneously with the disappearance of the discount in English paper money. Dr. Gilbert Slater, Professor of Economics, has pointed out that this means a saving to the Indian Government of some 12 crores in Home charges per annum which will more than cover the Imperial deficit. So far as I am able to judge, there is likely to be no deficit and in the circumstances no contributions by Provinces to the Imperial revenue is necessary.

3. Assuming for the moment that there would be a deficit, the next question is whether the best method of meeting it is the levy of contributions from the provinces. It must be remembered that in succeeding years a large outlay will be necessary in order to meet the cost of reforms both in the shape of recurring and non-recurring charges.

The backward state of Indian industries so forcibly brought home in the report of the Industries Commission and the necessity there is for early industrial revival will require large initial and recurring outlay. The expansion of elementary and technical education, improvement of sanitation and medical relief, development of communications, the introduction of higher scale of pay, etc., recommended by the Public Service Commission, the revision of pay of low-paid Government servants who now suffer by the high prices now ruling and numerous other improvements in administration will have to be provided for in the near future. If the reforms are to be successful, it should be started under favourable conditions and the new administration should not be hampered in its work by having to find funds by fresh taxation, a method which is likely to make the reforms unpopular. Lord Sinha in his recent speech at Bombay asked the Indian public to devise means to find the money necessary for the various reforms. If the new ministers are, at the outset, to be at their wits end to find out fresh means of taxation, the reforms are doomed to failure. It is therefore necessary that the new Indian Ministers in charge of transferred subjects should be able to provide for the introduction of the various schemes of reforms without resort to any new taxation or any increase of existing taxation. If this view is sound it follows that all the available resources of the provinces should be left to the administrations concerned, the Government of India devising other means to meet the Imperial deficit, if any.

4. If the heads of expenditure met by Provincial Governments are on the one hand certain to increase, the Government of India have, on the other hand, sources of revenue which are bound to expand. Customs and Income-tax, for instance, are revenues levied at uniform rates throughout India, in proportion to wealth and any increase of the taxation under these heads will spread the burden more evenly and will bring in comparatively larger revenues than could be obtained by any additional provincial taxation.

And so far as this Presidency is concerned it is a well-known fact that the limit of taxation has been reached in regard to the chief sources of revenue, viz., Land Revenue and Excise, and that there is not much scope for expansion. The incidence of land revenue for cultivated area in ryotwari areas in Madras is Rs. 2-8-11, while it is only Rs. 1-5-7 in the sister Presidency of Bombay, Rs. 1-8-6 in the Punjab, Rs. 1-12-8 in Agra, 1-15-3 in Oudh and 1-12-6 in Bihar and Orissa. That the ryotwari land tax in Madras cannot be increased without causing considerable hardship on the rural population has been admitted. As regards Excise, the taxation on a proof gallon of country spirit in Madras is Rs. 11-2-2 which has so far not been reached in any other province. It must also be remembered that in view of the enlightened opinion in the country in favour of prohibition no reliance can be placed by Provincial Governments on the revenue from Excise. In these circumstances imposition of fresh taxation or enhancement of the existing taxation is out of the question in this Presidency; and the administration will have therefore to rely

entirely on its existing revenues for the inauguration of all schemes of reforms so necessary for the advancement of the country. Any contributions to Imperial revenues will deprive the masses paying taxes to the Provincial Exchequer of the benefits which they legitimately expect from their contribution and I am strongly of opinion that the Imperial deficit, if any, should be met by an increase in the Imperial taxation.

5. I am in this connexion to point out that the position of Madras in this respect is peculiar. Lord Meston in his evidence before the Joint Parliamentary Commission admitted that Madras had a real grievance in this matter of contribution to the Imperial Exchequer. As stated by Sir J. D. Rees, Madras has been the milch cow of the Imperial Government since 1871, when for the first time the Government of India made the Local Governments financially responsible for the administration of certain departments by assigning to each a fixed sum from which the net expenditure on these services was to be met. Madras has been uniformly unjustly treated and this fact was on many occasions brought to the notice of the Government of India. When the first settlement was made in 1871 only 74 lakhs were given to Madras against 88 for Bombay and 117 lakhs for Bengal and this disproportionately small assignment, when the same services were transferred to the three provinces, was objected to by the Government of Madras but with no result. Again in the subsequent quinquennial settlements between 1882-1897, which were framed on the basis of the standard of expenditure obtained at the end of the previous settlements, the surpluses over and above the standard of expenditure which had accrued to the Local Government were resumed by the Government of India for Imperial purposes. The resumption of such surpluses amounted to 17.44 lakhs per annum in 1887, 10.38 lakhs per annum in 1892 and 13 lakhs per annum in 1897 or in all 6½ crores.

The apathy of the Madras Government and the subordinate officers is responsible for the resumption of this large surplus which should have been utilized for the introduction of various schemes of reforms urgently needed in the interests of the province. It is a well-known fact that in the matter of irrigation works and improvement of communications, assignments are made every year but in spite of repeated orders from headquarters that the amount should be utilized before the end of the year, large amounts are surrendered owing to the utter lack of interest of the officers in their work. Sir Murray Hammick in introducing the Budget for the year 1911-12 stated "We hope we have plenty of objects on which we can usefully spend all the money which the Government of India might find themselves able to give us and if our large balance suggests the contrary the explanation is to be found in the fact that these grants have necessarily to be given at short notice and cannot therefore be utilized at once." This explanation can hardly be accepted as satisfactory when it is remembered that other provinces have not only been able to utilize their revenues but have applied for additional grants from the Government of India.

From a statement submitted by Lord Meston to the Decentralisation Commission and printed at page 234 of Volume X of the Decentralisation Commission report it appears that between 1903-04 and 1907-08 several applications were made by Local Governments for additional expenditure grants. It is curious that not one of these applications relates to Madras.

The explanation is to be found in the statement of the Government of India in a memorandum dated 31st December 1918, presented to the Southborough Committee. They state "under the system (present Provincial settlements) there has always been a competition between the growing needs of the Central Government and the equally growing needs of the provinces and from that competition there arose in our past history inequalities of treatment, sacrifice by the thriftier provinces and relative extravagance by the more powerful provinces." There was thus the Government of India always greedy for money to meet vast military and other expenditure; on the other hand there was the Madras Government slow to spend even for necessary and urgent needs but ever ready to sacrifice the interests of the province to please the Government of India. The result has been that Madras continues to occupy an unenviable position among the provinces.

The scale of expenditure in Madras is low as compared with Bombay. According to the standard proposed by the Government of India the scale for Madras with a population of 41 millions is 1,054 lakhs against 1,099 lakhs for Bombay with a population of 19½ millions, and yet the contribution of Madras is to be 194 lakhs per annum while Bombay is to contribute only 24½ lakhs.

6. In introducing the recent financial statement, Mr. Todhunter after referring to the unfavourable position which this Presidency now occupies showed how the expenditure in the Presidency is only one-half per head of the population of that in Bombay and how vastly heavier expenditure will be necessary in coming years. In my opinion, even if any contribution has to be paid to the Imperial Exchequer by Provincial Governments, Madras should be excluded from contributing to it having regard to the fact that she has patiently borne injustice so long and she must have ample resources if she is to take her rightful place among the provinces.

An objection might be raised to the relief of the Madras Presidency from payment of any contribution, that Madras will be faced with a huge surplus at the outset which she might find unable to utilize usefully. To this the reply is that the various schemes of reforms referred to above are long overdue and should no longer be delayed. Moreover, Madras is so heavily taxed that she has long been in need of some relief in her existing taxation which presses heavily on the poorer classes. As the budget should hereafter be framed on sound economic lines, the revenues being raised so as to meet necessary expenditure, the amount that cannot be utilized in reforms which will directly benefit the people will without being diverted to extravagant expenditure go towards relief of taxation.

16th February 1920.

S. KASTURIRANGA AYYANGAR.

MEMORANDUM, DATED 16TH FEBRUARY 1920, BY MR. C. P. RAMA-SWAMI AYYAR, B.A., B.L., HIGH COURT VAKIL, MADRAS.

The original arrangement that the Central Government should retain responsibility for provincial finance was altered during Lord Mayo's Viceroyalty so as to make provincial governments responsible in respect of a fixed grant for specified services. Provision for additional expenditure was conditional on the exercise of economy and the raising of local taxes. There was considerable provincial discontent at the revision of settlements effected in the years 1887, 1892 and 1897. In fact, Lord (then Sir James) Meston himself admitted before the Joint Select Committee on the Government of India Bill that the system had as its object the giving to provincial governments 'money required for normal expenditure' (i.e., that required in the estimation of the Central authorities). The arrangement of 1904, namely, the so-called quasi-permanent settlement improved the position somewhat inasmuch as the Supreme Government then gave freer scope for provincial liberty than before. The whole system of provincial settlements was strenuously and legitimately objected to on the ground that such settlements were based on the judgment of the Government of India as to provincial needs. It has been the contention of every person who has paid any attention to financial matters, whether official or non-official, that a fallacious test was enforced by allotting sufficient money for what was assumed by the Government of India to be the normal expenditure of provinces.

2. It is unnecessary to develop the historical aspect of this matter any further inasmuch as, proceeding on the cogent arguments adduced in paragraphs 201-206 of the Montagu-Chelmsford Report, the principle has now been definitely enunciated that the provinces must not be dependent on the Indian Government for the means of provincial development and that for the purpose of adequately dealing with the situation 'divided' heads should be also abolished. The Report, however, in paragraph 206 continued an essentially unjust basis of decision, namely, that the contribution from each province to the Government of India should be fixed at a percentage of the difference between the gross provincial revenue and the gross provincial expenditure. This procedure penalised the more economical provinces and its hardship was most perceptible in the case of Madras.

3. Taking the Amended Draft Financial Statement for the year 1920-21, the figures in which follow the classification of heads between Imperial and Provincial under the terms of the present Provincial settlement, the following facts emerge. There is a balance of about two crores at the beginning of 1919-20. There is in the revised estimate for 1919-20 a large increase under the heads 'Stamps,' 'Registration' and 'Income-tax' due to increased commercial activities and the improvement of trade which we trust, but cannot too facily assume will be permanent. The excise revenue has also risen by over 30 lakhs. The coming year is expected to open with a balance of 206 lakhs out of which 115 lakhs are going to be drawn for expenditure in 1920-21 whilst the revenues are estimated at 974 lakhs. After provision is made for the total expenditure for the coming year there will be a balance of 91 lakhs for the new Government. So far as the expenditure side is concerned, the Amended Draft Financial Statement for 1920-21 takes account of additional expenditure necessitated by the orders of the Secretary of State on the proposals of the Public Services Commission as well as the probable recommendations of the Salaries Committee. The increase in the cost of Public works has also been foreseen as well as the relief of local bodies in regard to the maintenance of the main lines of communication. New developments are inaugurated by the creation of a Department of Labour and by the extension of co-operative societies. In the Educational department the advance is gradual but not radical and the same remarks apply to the department of Industries. The total expenditure for the year 1920-21 as set out in the Amended Draft Financial Statement is 1,089 lakhs which, no doubt, as the Finance Member the Hon'ble Mr. Todhunter justly observes, is the largest amount ever set down in the Presidency for a year. But, it is noteworthy that, as

the Finance Member himself points out, the expenditure per head of population in Madras is less than half of that in Bombay under the heads 'education and medical' and under several important heads is less than that of most other provinces. Moreover, it is admitted on all hands that more money is needed for sanitation, for industries and for jail reform and that large experiments will be inaugurated under the popular régime involving considerable outlay. Therefore, it is clear that the needs of the province in coming years are under-estimated rather than over-assessed in the Draft Financial Statement.

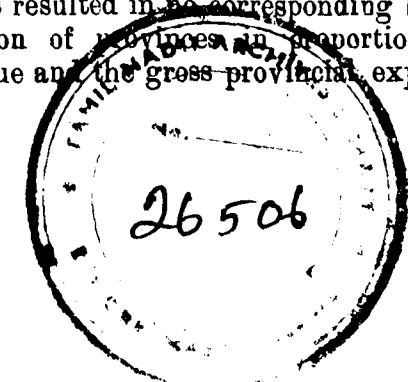
4. The Despatch of the 5th March 1919 (Cmd. 123, page 23), recommended that the initial contributions be recognized as temporary and provisional and that steps be taken to fix a standard scale. But throughout the discussion it was assumed that the suggested reclassification of revenues between the Central and Provincial Governments will result in the Government of India being left with a deficit which must be met by contributions from the provinces. My contention is that in view of the inevitable developments of customs revenue owing to the progressive improvement of trade conditions and the industrial renaissance and the possibility of the adoption of a scale of preferential tariffs and having regard to expected growth of other central sources of revenue which may be normally expected under the head of income-tax, general stamps, railways, posts and telegraphs, it is unnecessary to budget for an all-India deficit at all. In any case, I would adopt as my own the argument of Sir Alexander Cardew when he pleaded that any temporary arrangements for the purpose of meeting the deficit that may be budgeted for may take the shape of a loan from Madras to be repaid without interest when the final arrangements are carried out.

5. I have received with great gratification and thankfulness the information that the Government of India have now felt able to reduce the all-India deficit to 6 crores and that they have in mind the gradual diminution of the deficit and its ultimate extinction. When it is remembered that in April 1919 the Government of India calculated their deficit at 12 crores, it will be seen that the present policy of the Government practically relieves the provinces at once to the extent of one half of old demands on them.

6. Nevertheless, I hold that even this deficit need not be contemplated and provided for. It is very much easier to increase the imperial sources of revenue such as customs, income-tax, etc., than to levy larger land revenue or higher excise duties. When it is considered that the present rate of exchange and the carrying out of the Secretary of State's recent recommendation in relation thereto involve a saving to the Government of India of about 12 crores per annum which, as pointed out by Dr. Gilbert Slater in the *Madras Times* of the 4th February 1920, is nearly the exact amount of the suggested all-India deficit and when the considerations above adverted to as to the desirable and easily achieved expansion of all-India revenues are borne in mind, it must be admitted that both on principle and as a matter of practical politics it is neither necessary nor expedient that any imperial deficit should be budgeted for. On the contrary, I would urge that it would not only be possible but extremely likely that portions of the imperial revenues would be available for distribution among the provinces. I would therefore, with regard to the first question under reference to the Committee on Financial Relations, urge that no contribution need be paid to the Central Government for the financial year 1921-22 but that any anticipated deficit may be met by the increase of all-India sources of revenue.

7. Assuming, however, that such an all-India deficit has to be provided for the following considerations with reference to Madras may be borne in mind. The Government of Madras was for a series of years penalized for its economy and its careful management by the resumption of surpluses in the assigned revenues at the rate of 17.44 lakhs per annum in 1887, 10.38 lakhs in 1892 and 13 lakhs in 1897. Madras was, moreover, getting an inadequate and disproportionate share of growing heads of divided revenue. Whenever there was an Imperial surplus, Madras has got much less in the shape of grants than the other provinces.

8. The administration of land revenue and excise which admittedly has been the most economically managed in Madras, has resulted in no corresponding benefit to the province. To apportion the contribution of provinces in proportion to the difference between the gross provincial revenue and the gross provincial expenditure



whilst at the same time the Government of India kept a tight hold on provincial expenditure was to combine two evils, namely, the imposition of high taxation to meet other than provincial purposes and the restriction of provincial development for the purpose of enabling more extravagant provinces to indulge in comprehensive programmes. The discussion of the various aspects of this problem must henceforth be influenced by the circumstances that the provincial Governments become responsible in a greater or less measure to a gradually widening electorate which will insist and rightly insist on a marked growth of expenditure in several directions.

9. Madras has, according to the latest budget, the largest provincial gross revenue and a very economical administration and it will be found that owing to its state of general education and the widespread popular interest in problems of administration, Madras will demand the initiation of costly and long overdue departures in expenditure. Following the suggestions contained in the Despatch of 5th March, I would advocate readjustments by giving Madras the exclusive advantage of remissions which the central authority finds itself able to grant by reason of the present financial conditions and the rate of exchange. This suggestion affords the only feasible means of redress of an accumulation of unequal and unfavourable treatment.

10. Opinion, official as well as non-official will, I am confident, be absolutely unanimous that the original idea of recovering the whole of the surplus under the budget for 1919-20 as the contribution to the Government of India is a manifestly unjust handicap on the legitimate developments of this province and this is especially the case when the implications of the Reform Scheme are taken into account. It has been well pointed out that in Madras at all events where commercial and industrial developments have so far not kept pace with the growth of such activity in other provinces (e.g., in Bengal and Bombay and even the United Provinces) the growth of provincial revenue in the future would be relatively less than the growth of provincial expenditure. Moreover, leaders of public opinion in this Presidency have often drawn the attention of Government to the very high incidence of land revenue in ryotwari tracts and have pleaded for more equitable treatment. However doubtful may be the prospects of a permanent settlement of land revenue and whatever may be the arguments for and against such a policy, there is no question that every attempt to increase land revenue beyond the present rate will be keenly canvassed and influentially opposed and the argument will be legitimately employed that the highest taxation elsewhere in India is less than four-fifths of the Madras rate.

Speaking from the point of view of provincial revenues, the most productive items are land revenue and excise. There will be a demand for the reduction of land revenue following upon the legislative fixation of the principles of assessment contemplated by the Reform Scheme. And in any case, the pre-requisite of legislative sanction to the principles of resettlement will profoundly modify the present position of affairs. The average excise taxation is also higher in Madras than anywhere else in India and even if we dismiss the idea of Madras becoming a 'dry province' at all events for some time, the tendency will be to work for the decrease of consumption of liquor and the increase of duties on certain classes of intoxicants and we must contemplate as likely the consequent decrease of revenue under this head. Local taxation in Madras is also on a very high level but nevertheless, local bodies to a large extent depend on Government aid and their resources are not equal to the demands on them.

11. What has really happened as amongst the provinces is that certain favoured provinces have been allowed to embark upon a very high standard of expenditure and have been permitted by the Government of India to show small surpluses; and nevertheless these provinces by the very reason of their larger programmes of expenditure have been enabled to contribute less to the needs of the Central Government. Nearly a crore per annum has been, in the opinion of many persons, wrongly credited to imperial resources in the matter of Madras excise revenue.

With less than half the population of the Madras Presidency the gross provincial expenditure for Bombay for the year 1919-20 is larger than that of Madras. Under the heads 'Education and Medical' the expenditure for Madras is less than half of that for Bombay, only about a half in sanitation, about a fourth in protective irrigation and about a half in agriculture. Thus, the treatment of the provinces

has been very unequal and the least that can be done to compensate for the past inequality of treatment would be to throw the burden of any expected all-India deficit on the provinces which till now have enjoyed a disproportionate advantage. In fact, the large outlay which Madras has to incur to come up to the level of the other provinces is such that no other course will enable it to cope with the situation.

12. For these reasons, I would emphatically urge (1) that it is desirable to eliminate contributions from provinces, (2) that the ultimate scale of provincial contributions so far as Madras is concerned should be nil, and (3) that this result should be reached as early as possible.

I would specially emphasise the absence of any necessity, in the events that have happened, of making any calculation on the footing of an all-India deficit. I would, however, add that any contribution that may, in spite of the above contentions, be determined as leviable from Madras should be treated in the manner suggested by Sir Alexander Cardew, i.e., that such contribution should take the form of a loan from Madras without interest to be repaid when the final adjustments are complete. These arguments are not intended however to preclude or deny the Central Government's right to levy contributions in grave emergencies from provinces.

13. With regard to the financing of the Provincial loans, the 5th of March Despatch of the Government of India, whilst agreeing that Provincial Governments should be granted powers of raising loans yet imposes what, in the opinion of many persons, are uncalled-for restrictions. The granting to the Central Government of the power of scrutinizing the purposes for which loans are required would really involve the authority to regulate the pace of provincial development. One may well agree that a province ought not to be allowed to borrow except for capital purposes. It is also true that the establishment of sinking funds may well be prescribed but having regard to the purposes of provincial advances and loans and after due advertence to the circumstance that Local Governments are in most cases best fitted to tap local sources, the following principles may be adhered to. If the Central Government gets an application for a loan, it ought to be considered mainly from the point of view of finance and normally there ought to be no scrutiny of details of expenditure whereof the responsibility ought to be mainly the Provincial Government's (especially if the provincial project is such as would specially tap local sources).

16th February 1920.

C. P. RAMASWAMI AYYAR.

MEMORANDUM DATED 15TH FEBRUARY 1920, BY THE
HON'BLE MR. M. D. DEVADAS, B.A., B.L., BAR. AT-LAW.

The following are the terms of reference to the Committee on Financial Relations:—

To advise on

(i) the contributions to be paid by the various provinces to the Central Government for the financial year 1921-22.

(ii) the modifications to be made in the provincial contributions thereafter with a view to their equitable distribution until there ceases to be an all-India deficit.

(iii) the future financing of the provincial loan accounts.

1. CONTRIBUTIONS OF THE PROVINCIAL GOVERNMENTS.

2. The existing provincial settlements are not only inequitable but unsatisfactory. They press unduly upon provinces where the incidence of taxation is high and the cost of administration has been kept low. The incidence of taxation varies considerably in different provinces, e.g., in Madras the incidence of land revenue per cultivated acre is Rs. 2-8-11, whereas in Bombay it is Rs. 1-5-7 and in the Central Provinces Rs. 10. In Madras the ryotwari system introduced by Sir Thomas Munro yields a much larger revenue than any other system of Land Revenue obtaining in other parts of the country. Before 1858 taxation was independent of the requirements of the provinces. The policy of the Government seems to have been to get as much revenue as possible from the province with the minimum of expenditure consistently with tolerably good administration: and Madras being the oldest province the most advantageous form of settlement from the East India Company's point of view was introduced. When the Crown took over the Government of India it perpetuated the old order of things with very little variation. It was only when the local Governments realised that they were separate entities that they began to question the reasonableness of this state of things.

3. Before 1871 local Governments had no independent financial powers or financial resources. It is unnecessary to go into the history of provincial settlement. The Madras Government was never able to get a fair treatment from the Imperial Government, whereas Bombay and Bengal were able to exercise great influence upon the Imperial Government and secure settlements very advantageous to themselves.

4. The land revenue systems being different in different provinces the benefit arising from such taxation should be made available to the provinces themselves so that provinces which are lightly taxed may raise the incidence of taxation under this head. In Madras it would not be possible to raise the incidence of land tax without detriment to the interests of the population. Without going into the merits or the demerits of the ryotwari settlement one feels convinced that land in this Presidency has been taxed to its utmost capacity. The revision of taxation once in 30 years (Revenue Settlement) has greatly added to the income under this head.

5. The incidence of taxation under the head of Excise is not uniform in all the provinces. In Madras the average taxation per proof gallon of country-spirit is Rs. 11-2-2 and in no other province is taxation so high as this. Again the tree-tax system obtaining in Madras yields a very large revenue. It is not possible to raise the incidence of Excise taxation. On the other hand the large volume of opinion in favour of total prohibition may culminate in an Act considerably curtailing the revenue under this head if not altogether killing it. This being an uncertain source of revenue should not form the basis for any arrangement that may be arrived at for meeting any imperial deficit.

6. The proposed arrangement of making over the income from the sale of judicial stamps to the provinces is fair and equitable and in Madras the revenue under this head is not likely to show any large increase in the near future as the Court fee now levied is considered very high.

7. In Madras which is almost entirely an agricultural province, for the last 50 years no great work of protective irrigation has been undertaken owing to the demands of the Imperial Government. The best preventive against famines is protective irrigation work. After the execution of the Periyar water-works in the south and the Kistna and Godavari dams in the north, more than a quarter of a century ago no great irrigation project has been undertaken by the Madras Government. If all the water that falls on the Western Ghats and the rain water that falls during the rainy season, instead of being allowed to run to the sea, be conserved for irrigation purposes famines would be things of the past.

8. The services, especially the lower ranks, have been very poorly paid. The pay of the taluk clerks which was fixed about half a century ago was slightly increased in 1912. The taluk clerks are now paid between Rs. 20 and Rs. 35. The Sarishtadar and the Head Accountant of the Taluk office are paid Rs. 80 and Rs. 70 respectively. A clerk on Rs. 20 probably attains after twenty years of hard service the position of the Sarishtadar or the Head Accountant. The Revenue Inspectors are started on a salary of Rs. 35 and they are required to be on circuit for 20 days in the month. These men have not got even a living wage. Most of the taluk clerks work more than 8 to 12 hours a day and during the annual jamabandi they have hardly time to take their food and rest. The Sub-Magistrates who are invested with such large powers are paid between Rs. 100 and Rs. 150 whereas the Police Inspectors who appear before them are paid between Rs. 150 and 250. The same conditions prevail in the other departments also. The result of all this is inefficient administration and corruption in many cases. It is imperatively necessary that the Magistrates and those entrusted with revenue collection and revenue administration and persons occupying the lower ranks in the Government departments generally should be better paid and placed above want.

9. It may be necessary before long to separate the judicial and executive functions. Under the Reforms Act different departments will be administered by different heads under the Government and the Judicial Administration being a reserved subject it would be inexpedient to make the executive officers who are responsible to the Revenue Department discharge judicial functions, thus making them serve two masters.

10. Again primary education may be made compulsory and that means a large outlay. The Departments of Industries, Fisheries, Agriculture, Co-operation and Labour are not as useful as they should be by reason of want of funds. Unless the Madras Government is allowed to utilize all its resources from provincial sources for the benefit of the Presidency, Madras will lag behind the sister provinces in administrative efficiency and in the safety and well-being of the people.

11. Further, it is a bad system of finance for any Government to expect doles from the Central Government whenever occasion arises. The responsibility for raising revenue should be commensurate with the needs of the administration. On the first question, namely, the contributions to be paid by the various provinces to the Central Government I would strongly urge that no contribution be levied at all from any of the provinces. Each province should be allowed to work out its own financial salvation unhampered by the fear that its surpluses will be taken over by the Central Government and uninfluenced by the hope that its requirements, fancied or real, will be met by the Central Government.

12. The objection to the above statement would be — How is the Central Government to meet its deficit of 6 to 8 million pounds? As matters stand at present the Imperial Government will be able to save about 12 crores of rupees by reason of the rise in exchange. It may be said that the Imperial Government should not live from hand to mouth but should have a large surplus every year to meet unforeseen demands. This can be done (1) by reducing the military charges, (2) by increasing the duties on articles which are luxuries and not necessities, (3) by a protective tariff, (4) by an increase in the income-tax.

13. As regards military charges the bogey of Russian invasion has been decently buried. It has been the cry of all who wanted to raise the military charges that Russia might on any day pounce upon the North-West Frontier. There is no fear of

any foreign invasion, seeing that Germany has ceased to be a military power and that Russia will never be an Empire. It is not possible to conceive of any foreign invasion for another 100 years to come. A standing army of 100,000 would be quite ample to protect the frontiers from the incursion of hostile tribes and to meet any emergency that may arise within the country. The present war has taught us that an army of 500,000 can be easily raised in India in a short time to meet any emergency.

14. The duty on foreign liquor could be raised and the duty on motor-cars and other manufactured goods which are only luxuries could be raised without harm to any body. During the last two or three years the profiteers have been reaping the benefit of the rise in prices. No doubt the India Government may find it difficult to assert successfully its right to levy a protective tariff against the overwhelming influence of Lancashire but if the British Parliament is made to realize that without this taxation the Central Government could not be carried on, the Secretary of State will be able to succeed notwithstanding the odds against him in getting for the India Government the right to levy a protective tariff. Experience has taught us that free trade has not been altogether an unmixed blessing. The absence of any protective tariff benefits not only Great Britain but very largely countries like America, Japan, France and Germany. The protective tariff should not be an aggressive one but just enough to meet the demands of the Government. The food-grains and cereals that are exported out of British India could be taxed in the interests of the Indian consumer, as well as of the Government. Raw materials like jute, rubber, tobacco, etc., could also bear a duty without in any way impairing the profits of the producer and the manufacturer in India. A duty on tea and tobacco would also yield a large revenue. In England tea is a necessity and it is heavily taxed and nobody feels the burden. The same could be done in India where tea is largely produced. Four annas a pound would not be felt as a burden by the consumer or the exporter. Other raw products could also be taxed without harm to India and to the benefit of the Central Government.

15. The income-tax is a growing item of revenue and the Imperial Government should, if necessary, raise the income-tax by having a sliding scale whenever it requires more money to meet any emergency. Increase of half an anna per rupee for incomes over Rs. 10,000 would yield about 4 crores.

16. If it is considered not possible to raise additional revenue under the head 'Imperial' I would suggest the handing over, by all the provinces, of the income from 'Stamps' to the Imperial Government. It is best to give certain heads of income to the Imperial Government rather than pay any portion of the surplus. One of the main objections to giving a proportion of the surplus is the temptation for the Provincial Governments to spend every pié that they may get and to leave no surplus at all.

II. MODIFICATIONS.

17. If it is considered impossible for some years to come for the Imperial Government to give up the contributions from the Provincial Governments, I would suggest that the burden should be so distributed as not to be a hardship upon any one province. The course that would be least objectionable from the point of view of Provincial Governments is one based on the population of the respective provinces. Seeing that the incidence of taxation is not uniform in all the provinces, the provinces that are already heavily taxed should not be asked to pay a large contribution. The objection to levying contribution on the population basis would come from the poorer provinces. It may be said that if this principle is adopted, Bombay which is a wealthy province will be let off lightly. There is a good deal of force in this objection: but no other principle would be fair to provinces like Madras and the United Provinces. If it is not possible to arrive at any satisfactory arrangement, the Imperial Government should give up its contributions from the Local Governments in the course of five years, by giving up every year 20 per cent of the contributions. The exchange is not likely to be less than two shillings a rupee, and the Imperial Government ought to be able to save a good portion of the amount that they budgeted for in 1919-20. In the course of five years the Imperial Government ought to be in a position to rely upon its own resources to carry on its affairs.

III. PROVINCIAL LOAN ACCOUNTS.

18. The Provincial loan transactions should be made a purely provincial matter. The Provincial Governments ought to be given liberty to raise loans for such purposes as they deem necessary and urgent, and should be given power to charge provincial revenues for their repayment. If the Provincial Government is given power to raise loans within the province it may be able to tap sources which either are not known or are not available to the Imperial Government. Further, the provinces which are wealthy would be able to command better terms within their respective areas than the Central Government. The inequality that may result from adopting this principle will be largely compensated for by a strict economy in expenditure and a natural desire to make the loans popular. The Central Government need not be afraid of competition from the Provincial Governments as the needs of the two are different in nature. A satisfactory arrangement could be come to as to when and how the Provincial loans could be raised. If the Central Government has funds to spare it may lend to the Provincial Governments on such terms and conditions as would be acceptable to both. In order to make the Reform Scheme a success, Provincial Governments must be made to feel financial responsibility on all matters. A divided responsibility on this head will not conduce to the benefit of the Provincial Governments. The Provincial Governments should be made to have a sinking fund to meet such liabilities. The loans should be for terms ranging from 15 to 30 years according to circumstances.

MYLAPORE,
16th February 1920.

M. D. DEVADAS,
Barrister-at-Law.

MEMORANDUM, DATED 17TH FEBRUARY 1920.
BY SIR GORDON FRASER.

The appointment of the Committee will be welcomed by all classes and communities in the Madras Presidency, and I hope that the deliberations of the Committee will result in the removal of a long-standing injustice. It is unnecessary to comment at length on the situation as the injustice under which Madras has laboured for so many years appears to be fully recognized by all the authorities concerned.

2. One satisfactory feature of the New Reforms Act is that the injustice under which our Presidency has been placed for so many years has been brought to the fore, and in view of the strong feeling on the subject it is to be hoped that the contribution of the Madras Provincial Government in future will be fixed on an equitable basis.

3. The obvious duty of the Imperial Government is, without delay, to place all Provincial Governments on an equitable footing as regards contributions to the Imperial Exchequer, but instead of this we find it suggested that the present existing inequalities should be allowed to continue on the grounds that unless this is done it will lead to difficulties and financial pressure in the case of other provinces.

4. It is difficult to imagine more unjustifiable and unfair treatment of Madras and if the above suggestion is adopted it will, quite rightly, lead to the most emphatic protests from all classes in our Presidency. Admitting that contributions from the Provincial Governments are necessary to make up any Imperial deficit it is obvious that such contributions should be on an equitable basis, and, on the other hand, absurd to contend that heavily taxed provinces like Madras should contribute to the Imperial revenue nearly three times the combined contributions of the more wealthy, but more lightly taxed, Presidencies of Bombay and Bengal. It may be impossible to revise the position during the financial year 1920-21, but in my opinion the present state of affairs should not be allowed to continue a moment longer than necessary.

5. The Madras people are, I think, quite justified in expecting from the Imperial Government preferential financial treatment for many years to come in order to compensate for the manner in which the Presidency has been treated in the past. Instead of this, however, it is suggested that the present inequitable treatment should continue out of deference to the possibilities of financial pressure in other and more wealthy Presidencies.

6. With reference to the proposal that the Imperial deficit should be made good by contributions from the several provinces, assessed on an all-round ratio of their gross Provincial surpluses, I am strongly opposed to this. It would simply mean that Provincial budgets would be framed with a view to reducing revenue and increasing expenditure in order to keep the surplus as low as possible, and where the revenue of a province increased it would probably lead to unnecessary expenditure in order to reduce the contribution to the Imperial deficit to as low a figure as possible and so keep the Provincial money in the province.

7. Nor do I consider that it would be sound policy to base the Imperial contributions on the gross Provincial revenue. This would place a premium on reduction in taxation with a view to avoid the Imperial contribution and might seriously interfere with the revenue of the province.

8. If the Provincial contribution is necessary I would suggest that it be calculated on the gross Provincial expenditure based on the budget figures of 1917-18. This would mean that for every Rs. 4 of the gross Provincial expenditure an extra sum of approximately one rupee would be contributed to meet the Imperial deficit. The expenditure in a province would therefore regulate the contribution to be made

to the Imperial Government. I do not think this would in any way interfere with the legitimate and necessary expenditure of a province, but at the same time the Provincial Governments would always realize that the larger the expenditure on their own provinces the more they would be called upon to contribute to the Imperial Government. This method of calculation would in no way interfere with the present taxation, and based on the 1917-18 figures, very little extra taxation in the more lightly taxed provinces would enable these provinces to meet their obligations.

9. It has been suggested that with the appreciation in the rupee the Imperial Government under the present taxation will be in a position to avoid a deficit. It will be very satisfactory if this is so, but at the same time I think some basis must be arrived at to provide for the possibility of the Imperial Government requiring contributions from the provinces.

10. Before any call is made on the provinces, however, I am of opinion that every effort should be made by the Imperial Government to equalise its expenditure and revenue. It ought to be practicable to adjust the Imperial taxation so as to avoid budgeting for any deficit. If impracticable, then contributions on an equitable basis from the provinces would be necessary. If it is decided that present conditions will not permit the immediate rectification of the existing injustice to Madras, then I am strongly of opinion that Madras and other provinces paying more than their share to the Imperial revenue should be given the advantage of any improvement. Also that as soon as an equitable basis is arrived at the basis should be made retrospective at least in regard to the financial year 1920-21, and all contributions paid over and above the allotted proportion should be treated in the form of a loan to be repaid by the Imperial Government to the provinces concerned as soon as the more lightly taxed provinces are in a position to contribute their fair share.

17th February 1920.

GORDON FRASER.

MEMORANDUM DATED THE 15TH FEBRUARY 1920 BY THE
HON'BLE Mr. P. SIVA RAO, B.A., B.L.

The province of Madras has been unfairly treated in the past under the rigorous application of the provincial settlements. The old theory that the Government of India is entitled to all the surplus in any province after providing for its needs has operated much to its prejudice. Under the old system, the Government of India used to determine the standard of expenditure for each province and the Local Government had no voice in the matter. The assignments made to Madras were comparatively very small. It was denied her proper share in its growing revenues. Excise which was wholly provincial in the provinces of Bengal, Bombay and Assam, was made a 'divided' head in this province. The increase of taxation in Madras per head of population is comparatively high when compared to the other provinces. The standard of expenditure is comparatively low.

2. This province was mainly exploited for the benefit of the Government of India and the other provinces.

This was the state of things that hitherto prevailed and we shall see how the financial proposals made in the joint-report affect us. In my opinion they work a real hardship, considering the numerous needs and large scope for expansion of useful services in our province.

3. As regards the first term of reference, viz., the contributions to be paid by the various provinces, I am distinctly of opinion that no contribution need be levied, at any rate in the case of Madras. It is a matter of doubt whether there will be a deficit of 1,200 lakhs in the Government of India under the provincial scheme of abolition of 'divided' heads. Dr. Gilbert Slater points out in the 'Madras Times', dated the 4th February that, as the result of the new currency policy sanctioned by the Secretary of State, there will be hereafter a saving of 12 crores of rupees in Home charges which is exactly the sum required to cover the deficit. Even if this forecast is not true, it is preferable to raise the extra sum by raising the Imperial taxation which is certainly more elastic than the provincial sources of revenue.

4. Additional taxation being inevitable, it is much better to tap the Imperial sources, such as customs and income-tax which are taxed on wealth and luxuries, rather than the local sources such as land revenue and the excise which affect the poor.

5. As stated in the joint report, emergencies may arise when it must be open to the Central Government to make special supplemental levy on provinces. Subject to this reservation, contributions should not ordinarily be levied.

6. It is also mentioned in the same report: "If provincial autonomy means anything real, clearly the provinces must not be dependent on the Indian Government for the means of provincial development." Under the proposed scheme the provinces will be more at the mercy of the Government of India by being made to pay a fixed sum to them whatever their revenues in a particular year may be.

7. If provincial autonomy should be an accomplished fact, the provinces should be allowed to utilise all their resources in the best manner possible subject to the payment of special levies during critical times for Imperial needs.

8. It is not pretended that the proposed scheme is an improvement on the old order of things. It simply perpetuates the glaring inequalities now prevailing only in another guise as the distinguished authors of the report themselves admit in the following words:—

"The proposed scheme continues the disparity, which is at present masked by the system of divided heads. Our scheme fails for the present to remove the existing inequalities that prevail for the present."

"The other provinces in order to be self-governing ought to adjust their expenditure to their own resources and not to draw indefinitely on their more enterprising neighbours."

9. The proposal to assess the contribution from each province to the Government of India at a percentage of the surplus, i.e., the difference between the gross

provincial revenue and expenditure is faulty and unsound. The distinguished authors of the report hit upon this device of levying contribution after examining various other devices based on population, area and gross receipts and so forth. This proposal has got the obvious defect of placing the extravagant provinces at an advantage when compared to Madras and other provinces which have been frugal and economical in the past. The expenditure allotted during the war period can hardly be relied upon as the basis of normal expenditure. The Madras Budget for the coming year provides for an expenditure of 1,089.09 lakhs, whereas the expenditure in 1917-1918 relied upon in the joint report provides only for 840 lakhs and yet it cannot be said for a moment that even a pie out of the present allotment under the head of expenditure for the coming year is wasteful or exorbitant.

10. The Province of Madras has been very niggardly and been starving many useful services in the past. It has been withholding or delaying many a useful scheme of reform for one reason or another.

11. I quite agree with what the Finance Member has stated in the Amended Draft Financial Statement for the coming year. "The total expenditure for the year 1920-1921 as thus evolved amounts to a sum of 1,089 lakhs which is the largest amount ever yet set down for expenditure in the Presidency for a year. Large as the amount is, it is still very far short of the needs of the Presidency; as has been indicated under the various heads, progress has been delayed in almost every direction. Under the heads of Education, Medicine and Police, the expenditure per head of population in Madras is less than half the expenditure in the sister province of Bombay. Similar comparisons might be made with other provinces in respect of expenditure under other heads, notably, that of general administration. The increase of prices renders re-examination of salaries imperative. The need for more money to spend on sanitation is well known to every member of the Council. Jail reform is only delayed pending the reports of the Jails Committee. With this leeway to be made up in the established departments, new departments such as Industries, Fisheries, Agriculture, Co-operation and Labour are all crying out for funds and will need more and more, as time goes on. The Council must not, therefore, expect that the sum now set down for expenditure is anywhere near the maximum. On the contrary, it is the lowest sum which after anxious discussion with the Finance Committee the Government feel should be provided". I may add in this connexion that there is any amount of scope for useful expenditure in this province on the re-organization of the pay and prospects of the several departments, the expansion of elementary education, the medical relief and sanitary improvements especially in rural areas, the educational reform, the exploitation of the forests and the development of commerce.

12. Any scheme of contribution ought to depend on the past history of a province as to how much it has been hitherto contributing, its taxing capacity, its population, its area, its needs, judged in a liberal spirit as compared to the standard of expenditure prevailing in the other provinces, and its gross revenue. All the above factors should be taken into consideration before contribution can be fixed. If, however, it is found impossible to waive the levy of provincial contributions, I suggest that that should be the ideal to be worked up to in as short a time as possible. I also favour the suggestion made by Sir Alexander Cardew in his evidence before the Joint Committee that any contribution from Madras should take the form of a loan without interest to be repaid when the final arrangement is carried out.

13. As regards the Provincial loan account the monies required for the loans are furnished by the Government of India. The Local Government pays interest thereon and bears losses on account of bad debts. The present rate of interest charged to the Local Government by the Government of India varies from 4½ per cent to 5½ per cent. The Local Government propose to charge the local bodies 6 per cent by way of interest. I propose that the Local Government may hereafter finance the Provincial loan account. It is anticipated that this account will close with a balance of 114 lakhs on the 31st of March 1921 while the general balance of the Madras Provincial funds will stand at about 90 lakhs on that date. The balance may be found by the Government borrowing money for the purpose in the market.

15th February 1920.

P. SIVA RAO.

MEMORANDUM DATED 14TH FEBRUARY 1920, BY THE
HON'BLE RAO SAHIB T. NAMBERUMAL CHETTI GARU,
ENGINEERING CONTRACTOR.

I have the honour to submit my views on the Financial relations between the Government of India and the Government of Madras.

2. That the relations have been strained and that the Madras Government had to submit to any doles which the Government of India thought was enough for us are quite patent and need no repetition.

It is a hopeful sign, however, that with the introduction of the Reform Act, a change will come, i.e., that the needs of the Government of India will in the first instance be met by the full imperialisation of certain heads of revenue such as Customs, Income-tax, Salt, Stamps, Railways, Post and Telegraphs and Opium; and that for further deficit, if any, the surpluses of Provincial Governments will be indented on.

3. From 1871 onwards, representations were made by Provincial Governments and Non-official Members of the Imperial Council, but all these have not produced the desired effect. The treatment accorded to sister provinces has been better; and even when it was shown by facts and figures that Bombay and Bengal were allowed a freer hand in their expenditure, Madras met with no adequate reply. Paragraph 60, Decentralisation Commission Report, speaks of equality of treatment for all the provinces. But when the Hon'ble Mr. B. N. Sarma moved a resolution that the Madras Excise Revenue should be wholly provincialized as in Bombay and Bengal, the Government of India did not accept it.

4. The Government of India in paragraph 4 of their memorandum, dated the 31st December 1918, to the Southborough Committee say the growing needs of the Central Government and the equally growing needs of the Provincial Governments created a competition, and from the competition arose inequality of treatment and sacrifices of thriftier provinces for the good of the more powerful provinces. That is, the more the provinces cried, the greater the doles given to them at the expense of the thriftier provinces. It seems as though it were a sin to be economical. Our past traditional economy has been our greatest drawback.

5. The opinions of Professors V. G. Kale and Doctor Slater seem to show that the Government of India need have no anxiety about the Imperial deficit as the rise in exchange would place crores and crores in their hands, and that even if there were a deficit, it can be met by fresh Imperial taxation. I therefore submit that the Government of India should leave the surpluses of provinces alone, at all events of Madras, especially in view of the niggardly treatment accorded to it for the past half a century.

6. In their Reforms Report, the Government of India suggest that an all-round ratio of the gross Provincial surpluses was the only method that could be adopted, in preference to other methods of calculating the levies on population, revenue or expenditure. I think that the Imperial deficit should be met from the heavy windfall owing to rise in exchange, and from Imperial taxation, if necessary, and that they should leave Madras surpluses alone for a period of ten years, to improve the minor services (referred to Salaries Committee), Police, Education, Medical and Sanitation. The Government of India clearly admit in their despatch of 5th March 1919 that the all-round ratio on the gross provincial surplus is not equitable to Madras and the United Provinces and eventually leave the settlement to a Committee on Financial relations. It behoves the Madras Government to urge our claims and get all the surplus revenue to ourselves, for even this would not be enough to meet our needs, if our services are to be paid adequately and the departments of Police, Education, Medical and Sanitation and the new departments are to be properly officered and managed.

7. That Madras expenditure is expanding while its revenue is not growing with equal pace, is clear. Madras realizes under Land Revenue Rs. 2-8-11 per acre, which is nearly twice as much as the average in four other provinces and four times

as much as in Central Provinces. Similarly, under Excise, Madras realizes Rs. 11-2-2 against an average of Rs. 7-9-0 of the seven provinces. From these sources no further increase of revenue may be reasonably expected.

8. Comparing the revenue and expenditure of the years 1911 to 1920, it will be seen the annual average increase in the revenue is 35 lakhs and the annual average increase in expenditure is 36 lakhs. With a growing expenditure it is not likely there will be any balance left out of the surplus revenue. Expenditure per capita compared with Bombay reveals that in nearly every head, Madras is spending half or less than half. It is therefore essential that the Committee's attention should be drawn to the standard of expenditure in the respective provinces.

9. We must provide for the following additional sums in the near future:—

						LAKHS.
For Salaries	Committee's recommendation	nearly	..	..	..	200
Expenditure—	Land Revenue	..	..	..	..	50
"	Education	..	..	..	..	75
"	Medical	..	..	..	..	8
"	Sanitation	..	..	..	..	25
"	Agriculture	..	..	..	..	17
"	Scientific and Mis.	..	..	..	..	10
					Total ..	385

10. The above will absorb all the surplus, and the Committee on Financial Relations may be asked to leave Madras alone for a period of ten years, the period for the initial working of the Reforms Act.

14th February 1920.

T. NAMBERUMAL CHETTI.

MEMORANDUM, DATED THE 22ND FEBRUARY 1920, BY THE HON'BLE
RAI BAHADUR K. V. REDDI NAYUDU GARU.

The history of the financial relations between the Government of India and the Provincial Governments, of the annual assignments, of the quinquennial settlements, of the quasi-permanent settlements and finally of the permanent settlements is a continuous tale of inequality and injustice. The Government of India have always had at their disposal far too large a share of growing revenues and their expenditure being confined to army and a few services, large surpluses always accumulated a portion of which they doled out to the provinces. There was always a scrambling for these doles. This doling out was never equitable and it very often involved injustice to the Provinces which paid their way and made their proportionate contribution to Imperial expenditure without aid or help from any one. This injustice was felt all the more because the Provinces could not get their own pressing demands satisfied out of their own revenues. Provinces which were spending much got more while Provinces which practised economy got very little. For forty years Burma did not pay its way and it had to live on other Provinces. Bombay always had a deficit till recently. In the year 1827-28 the deficit in that province was £1,241,178 and it was piling up for a long time after that. In recent years its budget was described as a bloated budget. Within four years of the first decade of this century Bombay received a sum of 518 lakhs for famine alone besides the smaller subsidies for other purposes. In 1911 a grant of 104 lakhs was made by the Imperial Government to the Provinces. Bombay got 50 lakhs and Madras got nothing. In the quasi-permanent settlements the share of the Madras Government in the revenues was unduly narrowed and this led to grants-in-aid from the Imperial Government. In the year 1904 Madras expenditure was estimated at 350.43 lakhs as against the Provincial revenues then assigned of 290.82 lakhs. This caused a deficit of 59.56 lakhs which India had to give to Madras as a grant-in-aid. By the end of 1907-1908 this figure had to rise to 150 lakhs and to avoid this enormous grant the Provincial share of divided heads had to be raised from one quarter to one half. When permanent settlements were made in 1911 substantial concessions were made to other major Provinces, but Madras was not shown the same concession except to the extent of three lakhs and odd due to the provincialization of forest revenue and expenditure. While excise was made wholly a Provincial revenue in Bombay and Bengal, in Madras it was left a divided head of half and half. A resolution in the Imperial Legislative Council moved in 1913 by the Madras representative to raise the Madras share of the excise revenue from one-half to three-fourths was rejected and a similar resolution in 1917 to wholly provincialize it in Madras shared a similar fate. During the years 1911-12 to 1919-20 Madras received a recurring grant of only 28.50 lakhs for education, Bengal received 41.81 lakhs and Bombay 21.45 lakhs. The injustice will be apparent when it is remembered that the population of Bengal is almost the same as that of Madras while the population of Bombay is not even half of that of Madras. The United Provinces and Madras always served as milch cows while Bengal played the part of a prodigal son for whom the fatted calf was killed.

2. The unscientific and inequitable financial relations between the Government of India and the various Provinces have long been the subject of adverse criticism. Publicists in India have always attacked it. The Government of Lord Mayo, the witnesses before the Fawcett Committee of the House of Commons of 1873, Lord Dufferin's Finance Committee of 1886, witnesses before the Welby Commission of 1896 and the Royal Commission on Decentralization of 1909 have all criticised them. Various representatives of the Province often demanded a more sensible system and a

fairer treatment in the Imperial Legislative Council. Sir Alexander Mackenzie, late Lieutenant-Governor of Bengal, compared the Provinces to 'sheep being thrown on their backs close clipped and then turned out to shiver in the cold.' The Joint Report recognized this fully. Sir John D. Rees before the Joint Committee called Madras the financial milch cow of India.

3. Provincial financial autonomy is to some extent granted under the Reforms Scheme. Provinces need no longer be dependent on the Government of India for Provincial development. The separation of the resources of the Central Government from the Provincial goes a long way in this direction. But the inequality of the burden of Imperial obligations among the various Provinces still remains unremedied. In the Joint Report, the deficit in Imperial revenues is proposed to be made up by Provincial contributions assessed on an all-round ratio of their gross Provincial surpluses. In paragraph 206 of the Joint Report it is recognised that "some Provinces even under this plan will bear a very much heavier proportion of the cost of the Indian Government than others. Madras and the United Provinces will be paying 47.4 per cent and 41.1 per cent of their remaining revenues to the Government of India while Bengal and Bombay are paying only 10.1 per cent and 9.6 per cent, respectively." The Government of India in their first despatch on Reforms, dated 5th March 1919, also admit that "from Madras we shall be levying nearly five times as much as from Bombay and from United Provinces nearly five times as much as from Bengal. It is no sufficient reply, although it is true, to say that these figures merely bring into prominence what has hitherto been disguised by the complicated financial arrangements of the past, and that they impose no fresh burdens. The mere disclosure of the true position makes it impossible to perpetuate the inequality and we shall be told with unanswerable force that the first duty of a responsible Government is to pay its own way."

4. The India Government notices that "it is quite conceivable that the disparity of the scale in the report is to some extent redressed by the indirect payments which the lightly burdened Provinces make to the Central Exchequer through the customs receipts and otherwise." A close analysis of the statistics, however, shows that this is not quite so. The amount of customs that may be collected in any one port cannot properly be said to be paid by the citizens of the Provinces wherein the port lies. Bombay, for instance, as the gate of India collects the customs from traders in all parts of India. Nor is it easy to localise income-tax. After all, taking the year 1916-17, the income-tax from Bombay is only £900,000, while that of Madras is £400,000. The difference of £500,000 is not much. On the other hand, Madras gets a stamp revenue of £1,039,285 while Bombay brings in only £650,000. Assuming that the general stamp revenue will be a third of the total it will be noticed that Madras will be paying £100,000 more than Bombay in the new arrangements according to which general stamps revenue will be Imperial. It is easy to cite other instances, but the above are enough, to illustrate the point which I am trying to explain.

5. In paragraph 206 of the Joint Report are shown the standard figures provisionally fixed by the Government of India for calculating the Provincial surpluses; 491 lakhs are shown as the gross Provincial surplus for Madras, 87 per cent of which, that is, as much as 428 lakhs, are proposed as the contribution to the Imperial deficit of 1,363 lakhs. Later on it would appear that the Government of India found their deficit reduced to 1,106 lakhs and suggested 388 lakhs as the contribution from Madras. It would now appear that, in view of the practical assurance of a high exchange, the Government of India now feel able to reduce the all-India deficit to 600 lakhs, that is, roughly one-half of what was originally anticipated. It is possible that only 200 lakhs will be demanded now from Madras. If we take the budget of 1919-20 into account it will be noticed that the expenditure of this province will be about 1,100 lakhs. Taking the gross Provincial revenues at 1,442 lakhs as estimated in the Montagu-Chelmsford Report, there will be a gross Provincial surplus of 341 lakhs. At first sight this appears as a large surplus. But the budget of 1920-21 needs examination. In that budget a sum of 53 lakhs is all that is set apart by the Madras Government, to meet the expenses that will be incurred to adopt the recommendations of the Salaries Committee. But I am perfectly certain

that this sum will have to be increased very largely. The Salaries Committee does not take into account the salaries of the schoolmasters under the local boards and municipalities and of the other local board servants. When the Government teachers and other Government servants are paid higher salaries local bodies cannot resist the natural demand for payment on similar terms to their own servants. This means the Provincial Government must make additional grants to the local bodies, which in its turn means more expenditure to the Provinces. Further the new Reforms have stimulated the desire for the realisation of long delayed schemes and developments. The ministers will become unpopular if they do not show signs of initiation in progressive development, nor can they dare launch upon schemes of fresh taxation at the very threshold of these reforms. It is well known that Provincial heads of revenue are not elastic. Land has already been taxed to the utmost limits of its elasticity. Considering that the landholders' representatives will form the majority in the new Councils, any additional taxation on land will be stoutly resisted. Temperance reformers stand in the way of increasing the abkari revenue. Almost every public man in this province has on one occasion or another committed himself to temperance principles, if not to those for making this province dry.

6. The present scale of expenditure in Madras is low as compared with that of Bombay and larger expenditure will have to be incurred in Madras in the near future in order that it may reach the level already enjoyed by the neighbouring Province of Bombay. Otherwise administrative efficiency will deteriorate and benefits accruing to the people will be less in Madras than in Bombay.

7. The illustrious authors of the joint report gave their best consideration to various devices for meeting the resultant deficit in the India budget and finally hit upon this device of contributions from the several Provinces, assessed on an all-round ratio of their gross Provincial surpluses. This does not take away the inequality and injustice to certain Provinces, but simply emphasises it, as has already been noticed. The Government of India, in paragraph 61 of their first despatch, dated 5th March 1919, advocated the fixing of a standard scale "towards which the Provinces would be required to work by stages as a condition of the new arrangement. To some extent, the re-adjustments may be expedited by giving the more heavily burdened Provinces the exclusive advantage of any remissions of the total Provincial subsidy, which the central authority finds itself able to grant from time to time. Or it may be necessary to prescribe a sliding scale by which the Provinces now favoured will raise their relative contributions at fixed intervals, presumably with the help of fresh taxation."

8. This gradual reduction of the burden of Provinces like Madras should not take long. It must not be forgotten that the Imperial heads of revenue under the new scheme are elastic and are capable of steady increase. On the other hand Provincial revenues are not so elastic while the Provincial expenditure is apt to increase by leaps and bounds.

9. Keeping the above observations in view, I shall now propose how the Imperial deficit of 600 lakhs should be distributed on the basis of budget figures for 1919-20. The gross revenue of all the Provinces was estimated at 7,360 lakhs and the gross expenditure at 6,254 lakhs, leaving a balance of 1,106 lakhs which was to make up the Imperial deficit, when that last amount was believed to be the Imperial deficit. We shall now take this 1,106 lakhs as the surplus (gross) of the Provinces. These figures are shown in columns 2, 3 and 4 of statement I, herewith appended. In column 5 is shown the amount contributable by each Province on a basis of percentage of the gross surplus, while columns 6, 7 and 8 contain the contributions, which will have to be paid to the Imperial deficit on a basis of population, gross revenue and gross expenditure, respectively, always taking care to show 600 as the total. A contribution of a percentage of gross surplus is unfair to Provinces which improved their revenues and conducted their expenditure economically. The same remark applies to a contribution based on gross revenue and gross expenditure. Further if it is based on gross revenue it will naturally deter Provinces from developing their revenues. On the other hand if it is based on gross expenditure Provincial Governments will be tempted to spend less and leave large surpluses which is always regarded as bad finance. Of the three bases under consideration,

that founded on gross expenditure is perhaps open to the least objection. But the best method seems to be a contribution based upon population. The Imperial obligations of the nation must be borne by the whole nation proportionately to the population. Other tests involve injustice of some kind or other. I have accordingly taken that test as the most suitable one.

10. Statement II gives the surplus of each Province and the contributions payable to the Imperial deficit and the balances remaining in the hands of the Provinces having surpluses after paying the contributions. It will be noticed from that statement that three Provinces, viz., Bengal, Bihar and Orissa, and Central Provinces, are incapable of paying any contribution at all. Two other Provinces, viz., Bombay and Assam, can just pay their contributions, but in that case will have no spare surplus at all. The remaining four Provinces, viz., Madras, United Provinces, the Punjab and Burma, can not only pay their contribution but will still have large surpluses. To my mind, therefore, the reasonable course, appears to be to allow Assam and Bombay to simply pay their just contribution from the outset, while Madras, United Provinces, the Punjab and Burma will have to contribute on a sliding scale what Bengal, Bihar and Orissa and Central Provinces are bound to contribute.

11. The contribution payable by Bengal is 115 lakhs, by Bihar and Orissa 87 lakhs and Central Provinces 35 lakhs. Madras, United Provinces, the Punjab and Burma will have a surplus of 755 lakhs after paying their contribution as may be seen from the last column of Statement II. We must therefore distribute the contributions payable by Bengal, Bihar and Orissa and Central Provinces, i.e., 237 lakhs over the four Provinces having a balance of 755 lakhs. This works out at 87.5 lakhs for Madras, 71.5 for United Provinces, 57.5 for the Punjab and 20.5 for Burma at the outset. In the first year, that is, 1921-22, therefore Madras will not only pay its own contribution of 105 lakhs but also an additional contribution of 87.5 lakhs, while the United Provinces pay their own contribution 118 and 71.5 additional contribution. Similarly the Punjab pays 48+57.5 lakhs and Burma 27+20.5 lakhs. But these additional contributions will have to be stopped by the end of ten years by reducing every year one-tenth of this additional contribution.

12. Statement III contains the year-war additional contributions from these four Provinces from the year 1921-22 to 1931-32 on a falling sliding scale. These four Provinces will not pay any additional contribution after the year 1931-32. On the other hand Statement IV shows how Bengal, Bihar and Orissa and Central Provinces have to pay a contribution increasing every year and reaching their legitimate share in the year 1931-32. These Provinces will not pay any contribution in 1921-22.

13. Statement V is a consolidated statement showing how the contribution for the Imperial deficit of 600 lakhs is made up every year. It will be noticed that in the last column, that is in the year 1931-32, the contribution figures are the legitimate figures based on population and already shown in column 3 of Statement II and column 7 of Statement I.

14. In other words we have taken population as the basis for contribution of the Imperial deficit. But as it would cause a hardship, if this system were put into force forthwith on certain Provinces, we have adopted a rising scale in the case of those Provinces, according to which those Provinces which do not pay any contribution in the first year, will pay a small amount in the second year and will go on increasing that amount every year, till at the end of ten years they rise to their full legitimate share of contribution. To make up for this, Provinces having surpluses will be made to contribute on a sliding scale proportionately to their balances after paying off their own contributions. As the sliding scale is a falling one at the end of ten years these Provinces need not pay anything beyond their own just and legitimate share as by that time the other provinces will themselves be contributing their own legitimate share. The intermediate period will be years in which there will be contributions by all Provinces, the assisted Provinces increasing their contributions gradually and the assisting Provinces reducing their additional contributions until at last after ten years the stage will be reached when each Province will be paying its own legitimate share, calculated on the population basis.

15. The world is just now passing through a financial crisis. The tremendous strain of four years of war has landed the European States in a financial morass. But India not only resisted that great strain but actually gained strength in finance. The large balance of trade in favour of India, the high exchange value of her rupee and the elasticity of her taxation and revenues have made Indian finance a subject of abounding confidence. If, therefore, during this period of ten years the Imperial revenues should increase or the Imperial expenditure be reduced and thereby surpluses are found in the Imperial Exchequer, no one need be surprised. If as a matter of fact such surpluses shall accrue they should be distributed amongst the assisting Provinces in the proportion of the assistance they rendered to make up for the Imperial deficit.

22nd February 1920.

K. V. REDDI.

I.—Statement showing the distribution of the Imperial deficit of 600 lakhs among the provinces on various bases.

Provinces.	Gross revenue.	Gross expenditure.	Gross surplus.	Contribution			
				Based on a percentage of gross surplus.	Based on population.	Based on gross revenue.	Based on gross expenditure.
	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.	LAKHS.
1. Madras	1,442	1,064	388	210	105	118	100
2. Bombay	1,148	1,099	49	26	49	93	105
3. Bengal	773	790	17	..	115	63	76
4. United Provinces	1,208	865	345	187	118	92	83
5. Punjab	962	732	229	124	48	72	71
6. Burma	812	721	91	49	27	66	69
7. Bihar and Orissa	416	418	2	..	87	34	40
8. Central Provinces	421	414	7	4	35	34	40
9. Assam	179	162	17	9	16	15	21
Total	7,360	6,564	1,106	609	600	601	605

II.—Statement showing Provincial gross surpluses or deficit.

Provinces.	Surplus.	Contribution payable on population basis.	Net surplus after paying the legitimate shares.
	LAKHS.	LAKHS.	LAKHS.
Madras	388	105	283
Bombay	49	49	..
Bengal	17	115	..
United Provinces	345	118	227
Punjab	229	48	181
Burma	91	27	64
Bihar and Orissa	2	87	..
Central Provinces	7	35	..
Assam	17	16	..
Total	1,106	600	..

III.—Statement showing the sliding scale of additional contributions by the assisting provinces.

Provinces.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.
1. Madras	87.5	78.75	70.00	62.25	52.50	43.75	35.00	26.25	17.50	8.75
2. United Provinces	71.5	64.85	57.20	50.05	42.90	35.75	28.60	21.45	14.30	7.15
3. Punjab	57.5	51.75	46.00	40.25	34.50	28.75	23.00	17.5	11.50	5.75
4. Burma	20.5	18.45	16.40	14.35	12.30	10.25	8.20	6.15	4.10	2.05
Total	287.00	213.3	189.6	165.9	142.2	118.5	94.8	71.4	47.4	23.7

IV.—Statement showing the rising scale of contribution by the assisted provinces.

Provinces.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.
1. Bengal	11.5	23.00	34.5	46.00	57.5	69.00	80.5	92.00	103.5	115.0
2. Bihar and Orissa	8.7	17.4	26.1	34.8	43.5	52.2	60.9	69.6	78.3	87.0
3. Central Provinces	3.5	7.0	10.5	14.00	17.5	21.0	24.5	28.0	31.5	35.0
Total	23.7	47.4	71.1	94.8	118.5	142.2	165.9	189.6	213.3	237.0

V.—Consolidated statement showing what amount each province is to pay as contribution towards the Imperial deficit during the first ten years.

Provinces.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	—
1. Madras	192.5	183.75	175.0	166.25	157.50	148.75	140.0	131.25	122.50	113.75	105
2. Bombay	49	49	49	49	49	49	49	49	49	49	49
3. Bengal	..	11.50	23.00	34.50	46.00	57.50	69.00	80.50	92.00	103.50	115
4. United Provinces	189.5	182.35	175.20	168.05	160.90	153.75	146.60	139.45	132.30	125.15	118
5. Punjab	105.5	99.75	94.00	88.25	82.50	76.75	71.00	65.25	59.50	53.75	48
6. Burma	47.5	45.45	43.40	41.35	39.30	37.25	35.20	33.15	31.10	29.05	27
7. Bihar and Orissa	..	8.70	17.40	26.10	34.80	43.50	52.20	60.90	69.60	78.30	87
8. Central Provinces	..	3.50	7.00	10.50	14.00	17.50	21.00	24.50	28.00	31.50	35
9. Assam	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16
Total	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00

22nd February 1920.

K. V. REDDI.

MEMORANDUM DATED THE 15TH FEBRUARY 1920 BY
RAO BAHADUR T. RANGA ACHARIYAR, B.A., B.L.

The contemplated Imperial deficit is now expected to be reduced to Rupees 6,00,00,000; and experts anticipate even a much smaller deficit. It may be there will be no deficit for the Government of India.

2. This change in the situation should, I submit, be utilized to relieve the provinces hitherto subjected to a long course of iniquitous treatment from all liability to Provincial contribution. This measure of readjustment will be a bare act of justice and compensation to the hitherto more heavily burdened provinces thereby giving those provinces the exclusive advantage of this change in the situation. Madras has hitherto contributed to the Central Government several crores of rupees in excess of what is legitimately due from her.

3. It being admitted that it is most desirable to eliminate contributions from provinces, the sound method to begin that policy will be to eliminate provinces which have hitherto borne this inequitable burden. The system of contribution should be abandoned altogether and any anticipated deficit should be easily solved by an increase in Imperial taxation.

4. Madras stands in urgent need of several crores of rupees as additional resources for bringing up the salaries of village officers, clerks, police, schoolmasters, etc., to a reasonable level; for promoting education, sanitation and agriculture; for the improvement of roads; for the elevation of the depressed classes; and for improving industries. If contribution is insisted on, any proportion based on Provincial surplus is wholly objectionable. There is no scope for the expansion of revenue under the two great sources of Provincial revenue (Land Revenue and Excise), the incidence of taxation being already high and oppressive. Madras Provincial standard expenditure has been unduly low hitherto; and an expansion of that expenditure in several directions is inevitable in the near future.

5. The basis to be adopted for future guidance is to take the income of 1920-21 as the normal standard of income for the province; and to add at least 25 per cent more to the Provincial expenditure as the normal standard and then calculate the surplus. I strongly urge that the Imperial deficit, if any, should be met by increase in Imperial taxation and not by contribution from the provinces.

15th February 1920.

T. RANGA ACHARI.

MEMORANDUM, DATED 17TH FEBRUARY 1920, BY THE HON'BLE RAI
BAHADUR T. N. SIVAGNANAM PILLAI.

The Government of India periodically lend money to the Government of Madras for loans and other advances to cultivators, etc. The amount of interest expected to be paid to them in the current year is Rs. 4,20,000. Such a state of things necessarily argues that the Government of India have spare money at its disposal; but, as a matter of fact, they admit that they cannot exist without substantial contributions from Local Governments. The first duty of the Government of India would therefore appear to be to stop the grant of all loans to Local Governments till they are in a position to have a surplus of their own, without the adventitious aid of Local Governments. It is indeed very strange that the Madras Government have to make free gifts of large sums of money to the Government of India and then apply for loans of parts of these amounts promising to pay interest thereon. The simpler and more equitable course would be to stop the grant of all loans and to reduce the contributions, if it is at all necessary to contribute.

2. The deficit of the Government of India is estimated at 1,200 lakhs. If we take into account the favourable rate of exchange, the deficit is not likely to exceed 600 lakhs. When the deficit was expected to be 1,200 lakhs, Madras was asked to contribute 388 lakhs; when it is 600 lakhs the amount of contribution would be only 194 lakhs. At present, the revenue from Stamps is 165 lakhs. It is now divided between Provincial and Imperial in the proportion of 1 to 1. Under the reform proposals, the revenue from general stamps, viz., 60 lakhs goes to Imperial while that from Judicial stamps, viz., 105 lakhs goes to Provincial. There does not seem to be any very good reason for splitting the head of Stamps. It is a form of tax which must be considered as wholly Imperial and it is but natural that the whole of the receipts should go to Imperial. Allowing this credit to Imperial, the remaining deficit expected to be accounted for by Madras is 89 lakhs. It is against all principles for an Imperial Government to levy any contribution from a Local Government. It must therefore cut short its expenditure or impose fresh taxes which must be made applicable to the whole of India.

3. I am therefore strongly of opinion that no contribution need be paid by the Government of Madras to the Government of India either in next year or in any future year.

4. From the amounts set free by the cessation of contributions and from the augmentation of the Provincial income the Madras Government may grant loans to cultivators, etc., and they may even lower the rate of interest as the money is their own and not borrowed as at present.

17th February 1920.

T. N. SIVAGNANAM PILLAI.

**MEMORANDUM FROM THE SECRETARY, MADRAS MAHAJANA
SABHA, DATED THE 19TH FEBRUARY 1920.**

I am directed to communicate to you the following resolutions of the Sabha on the question of Provincial contributions now under reference to Lord Meston's Committee.

2. The Madras Mahajana Sabha is of opinion that in view of the practical assurance of high exchange and in view of the fact that in 1919-1920 and 1920-1921 the exchange rate according to the Currency Committee's recommendation accepted by the Secretary of State, is likely to be above 2 shillings per rupee fixed therein, there will arise no need whatever for any Provincial contributions in the year 1921-1922. According to the report of the Currency Committee, the whole of the revenue saved in respect of the Home charges on account of the high rate of exchange is expected to amount to $12\frac{1}{2}$ crores annually, whereas the anticipated deficit in the Government of India account according to the Reform Scheme is now estimated at 6 crores. Even if some portion of this $12\frac{1}{2}$ crores is needed in respect of the revaluation of the securities for the currency and gold reserves or for the redemption of any debt or other currency obligations, the anticipated saving on account of the exchange being over 2 shillings for sometime past and for sometime to come, would give a much larger saving than 11 crores, and no Provincial contribution seems likely to be called for for 1921-1922.

3. The Madras Mahajana Sabha is of opinion that with the anticipated expansion of the sources of revenue of the Central Government and the gradual diminution and ultimate extinction of Provincial contributions definitely contemplated, nothing in the nature of modifications of Provincial contributions as such which are to cease to exist after a few years need be suggested for the present. The Government of India now put the anticipated All-India deficit at only 6 crores and until the Sabha is made aware of the manner in which only 6 crores deficit is anticipated to arise in the face of the definite saving for over $12\frac{1}{2}$ crores expected from exchange, the Sabha is unable to state whether in justice to the Provinces, a Provincial contribution should be made to make up this deficit or whether the Government of India should be asked to find other ways and means for meeting this admittedly transitional deficit.

4. The Madras Mahajana Sabha has no observations to offer on the methods to be adopted for financing Provincial loans in the future, but generally is in favour of the scheduling of the taxable resources in the Provinces referred to in paragraph 62 of the Government of India's First Despatch on Reforms. If, however, the Committee decides on finally fixing Provincial contributions, the Sabha desires to urge that it should not continue to be treated in the same unfair and inequitable manner in which it has for nearly 50 years past been treated under the system of Provincial financial settlements, and the Sabha is of opinion that this Province should in any adjustment of the contributions as between Provinces obtain relief and compensation for the extra burden it has all along been made to bear. The very large programme of expenditure on objects directly for the benefit of the people, such as free education, sanitation, etc., clearly points to the conservation of the financial resources of the Provinces as much as possible, especially as compared to the other Provinces, the brunt of taxation reached in Madras is very high. Whether this consideration should take the shape of accumulating the large surpluses now available in the hands of the Madras Government or in the shape of relief of taxation or partly the one and partly the other so as to enable the Government to spend the resources available in the most efficient manner possible is a question on which the Reformed Legislative Councils must have the fullest liberty of decision. In any case, the Sabha is of opinion that the local Governments, whether as they are now constituted or as they may be reconstituted under the Reform Scheme, should be vigorously controlled against launching into schemes of extravagant expenditure imposing unnecessary present and future burdens in the shape of higher allowances and establishments or on any programme of expenditure for works which are bound to prejudice the direct alleviation of the lot of the masses of people.

19th February 1920.

C. GOPAL MENON,
Honorary Joint Secretary.

**MEMORANDUM DATED 20TH FEBRUARY 1920 BY THE HON'BLE
KHAN BAHADUR A. T. G. M. AHMAD TAMBI MARAKKAYAR
SAHIB BAHADUR.**

[Settlement of financial relations between Imperial and Provincial Governments.]

1. Madras has been very badly treated in the matter of past Provincial settlements. It is only fair that this inequality is removed in future. The method by which the inequality can be removed is for the Government of India to arrange to meet its expenditure from its income from all-India revenues; if there is any deficit it must be met by increased taxation under Imperial heads of income.

2. If this system is considered to be not feasible immediately, I would suggest that the Government of India makes up its deficit from contributions to be made by provinces from the surplus at their disposal subject to the condition that these contributions to be treated as loans to be repaid to the provinces within a definite period.

3. If this is considered to involve a burden upon the future revenues of the Government of India, I would suggest a third alternative, i.e.—that the deficit in the Imperial Budget should be met by the provinces from contributions based on an all-round ratio of their gross revenue or gross expenditure and not their surplus. This should not be made a permanent arrangement, but it should be so worked that there should be no necessity for any contribution after five years.

A. T. G. M. AHMAD TAMBI MARAKKAYAR.

20th February 1920.

