(ii) To transmit the objection of the Imperial audit officer against its appropriation or sanction with regard to expenditure with the explanation of the Provincial Government concerned to the Government of India for final disposal.[1]

Such were the limitations on the Financial Powers of the Provincial Governments. Apart from these specific limitations the Provincial Governments were not altogether the free architects of their own destiny within the sphere allotted to them; for it was provided that the power of supervision and control in any Department still rested in the Governor-General in Council, and that the Provincial Governments should keep him fully informed of their executive and financial proceedings so as to enable the former to discharge its obligations for peace, order and good government.[2] Their general effect on the finaicial freedom of the Provinces could hardly have been concealed. It must therefore have been a most impervious mind which in face of these paralysing limitations had not lost its faith in the independence of the system of Provincial Finance and had not asked what was after all the nature and advantage of this illusive institution ?

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[1] Rule 30 and 31 of 1912.

[2] Rule 5 of 1877; Rule 15 of 1897 ; and Rule 6 and 7 of 1912.

CHAPTER VIII

THE NATURE OF PROVINCIAL FINANCE

The study of Provincial Finance cannot be said to be complete unless it furnishes a true answer to the question which is bound to be asked in the end. What was the resulting financial relationship under the old scheme between the Central and Provincial Governments in British India? The question is an important one, for the validity of the criticisms and proposals with regards to Provincial Finance, or any subject for that matter, depends entirely upon a correct understanding of its nature. Unfortunately it had not received the attention that its importance demanded, and consequently we find the rather distressing fact that no subject was so confidently discussed, and yet none was so grossly misunderstood, as that of the nature of the old system of Provincial Finance in British India. It therefore becomes necessary to explain what was the exact nature of the system of Provincial Finance established in British India.

In an inter-related system of polities, such as is composed of Central and Provincial Governments in British India, it is always difficult to grasp the exact nature of their financial relationship; for, what may appear on the surface may be very different from what it may really be. None the less, the view was commonly held that the Indian system was based on a separation of sources between the Provincial and the Central Governments, and contributions from the yield by the former to the latter, much the same as was found in the federal system of finance which obtained in the German Empire. Whether such a view was wrong or right there were various incidents of the relationship between the Central and Provincial Governments in India, which, there can be no doubt, went a long way to strengthen that view. Among such incidents must be mentioned the division of functions between the Central and Provincial Governments. An onlooker could not fail to observe that in this distribution of functions the former controlled matters pertaining to Military Affairs, Foreign Affairs, General Taxation,

Currency, Debt, Tariffs, Posts and Telegraph, Railways and Adult and Accounts; while the latter administered matters of ordinary internal administration, such as Police, Education, Sanitation, Irrigation, Roads and Buildings, Forests, and the control over Local Bodies. If this incident encouraged the view that there was a separation of services, there was another incident of the relationship which encouraged the view there was also a separation of revenues between the Central and Provincial Governments in British India. That incident was the collection of most of the taxes in India by the agency of Provincial Governments. As observed by the Royal Commission on Indian Expenditure[1]

> "in the United Kingdom the Revenue Administration is centralized..... under the Chancellor of the Exchequer in London. In India the administration of some branches of revenue is centralized, though not always under the Finance Minister (of the Government of India). That of other branches is decentralized. The Land Revenue is under the control of the Central Department at Calcutta, but that department is subject not to the Finance Minister but to the Minister in charge of the Home and Revenue Departments. The Telegraph Department is under the Minister of Public Works. The Central Government controls the collection of part of the Salt duty and of part of the opium revenue, of Post Office revenue and of other revenues..... The remainder of the revenue is collected by the Provincial Governments.... As regards..... a large portion of the revenue, the Provincial Governments are units of administration and are efficiently equipped for their duties."

As a third incident supporting the same view, reference must be made to the peculiar mode of presenting Indian Accounts adopted in official Blue Books. As might have been noticed, to the General Accounts of the Government of India is attached a supplementary account professing to show the distribution of the different heads of receipts and expenditure among the various Provinces into which British India has been divided. This mode of showing the accounts is beyond doubt misleading. It appears as if the aim was to show the financial position of the Provinces. But as a matter of fact the figures given in the columns in which the revenues and charges are shown in their provincial distribution do not represent the respective claims and responsibilities of the different Provinces. Far from showing the financial position of the Provinces, the figures in the columns merely represent the geographical distribu-

[1] Para 25 of the Final Report.

tion of the different agencies through which the financial business of the Government of India is conducted, and through which the revenues are collected and the expenditure is defrayed. The revenue and expenditure, for instance, shown under "Bombay" represent the income and outgo which pass through the books of the Accountant General of the Government of India stationed at Bombay, and the same is true of entries under the heads of other Provincial Governments. The figures really represent the transactions of the Government of India distributed geographically, and there is nothing provincial about them in the least. However, such a system of account bears the impression that the system of finance in India is primarily Federal.

With these three incidents before one's mind it was easy to fall into a federal line of thinking in reasoning about the financial relationship between the Central and Provincial Governments in British India. So deep seated was the view that the Indian system was one of separation of sources and contributions from the yield, that many witnesses giving evidence before the Royal Commissions on Indian Expenditure (1892) and on Decentralization in British India (1909) sallied forth to assail the Commissioners with the criticisms on the inequity of the system and proposals for amending it according to what they considered to be the requirements of justice. Nowhere have they stated the reasons for their assumptions in explicit terms.[1] Yet their proposals are an unmistakable proof that they held that view. Unless they had taken for granted that the Provinces had separate revenues and separate services, they could not be expected to have wasted their energies in directing as they did their efforts to getting redressed what appeared to them as a piece of injustice embodied in the unequal contributions made by the different Provinces form their revenues to the support of the Central Government.

If their view of the financial relationship between the Central and Provincial Governments was acceptable, then a good deal could not but have been conceded in favour of their criticisms and their proposals. Contributions, if the Imperial share could have been conceived of in such a light, as between the different Provinces whether in ratio to their revenues or population, were certainly unequal if calculated on the somewhat questionable but generally accepted hypothesis that all the revenues collected within a Province belonged to the Province.

[1] Cf., however, Indian Expenditure Commission Minutes of Evidence, Vol. 3, Q. 18094, and Decentralization Commission Evidence, Vol. 2, Q. 9497.

PROVINCIAL CONTRIBUTIONS TO THE IMPERIAL GOVERNMENT

Province	Ratio of Amount Surrendered to the Government of India to the Total Revenues raised in the Province.					Ratio of Amount Surrendered to the Government of India per Head to the Population of the Province.				
	1871-2.	1882-3.	1892-3.	1904-5.	1912-13.	1871-2.	1882-3.	1892-3.	1904-5.	1912-13
C.P. ...	.655	.464	.615	.297	.204	.9	.69	1.3	.55	.59
Burma ...	.728	.575	.598	.497	.38	3.4	.39	.7	4.37	3.08
Assam ...	...	.438	.390	.376	...	...	.75	.75	.87	...
Bengal ...	.903	.746	.761	.742	.596	2.4	1.99	2.9	2.29	2.39
N.W.P. and Oudh ...	.785	.617	.435	...	...	1.5	1.24	1.4	...	...
Punjab ...	.768	.648	.726	.512	.391	1.7	1.5	1.4	1.57	1.64
Madras ...	.828	.664	.667	.638	.479	2.3	2.0	2.3	2.34	1.79
Bombay ...	.845	.648	.66	.614	.58	5.0	4.1	5.4	4.75	5.6
U.P. ...	...	...	...	.567	.381	...	...	...	1.48	.93
Bihar and Orissa ...	...	...	...	...	.220	...	...	...	...	.17

Compiled from the Finance and Revenue Accounts of the Government of India and the Decennial Census Reports.

Similarly, whatever may be said of the relative merits of the proposals[1] of changning the system of divided heads of revenue into one of complete separation supplemented in favour of the Central Government by contributions from the Provinces in the form of (1) a fixed sum revisable every few years, or (2) a lump percentage on provincial revenues, or (3) a fluctuating contribution from the provinces on their population, revenues or wealth, there can be no doubt that they were all aimed at reaching some such intelligible basis of distributing the burden of the Imperial exchequer as equality of payment or ability to pay. No one who had cared to scrutinize the true nature of Provincial Finance could have been expected to take these proposals with the same seriousness with which they were offered by their authors. However, strange as it may seem, none of the two Commissions questioned their propriety. The Royal Commission on Decentralization did make it clear, though not quite forcibly, that equal contributions were not necessarily equitable contributions, but neither it nor the Royal Commission on Indian Expenditure challenged the language which spoke of the Provinces as surrendering *their* revenues to make contributions to the Imperial treasury after paying for *their services*. It therefore becomes all the more necessary to examine at some length the grounds which

[1] See *Report of the Royal Commission on Decentralization* (hereafter abbreviated into R.C.D.)

supported that view which argued that the system was based on the principle of separation of sources and contributions from the yield. Indeed the question of equity of contributions would hardly be worth discussion until it is settled that the Provinces had revenues which they could call their own and services for the efficient discharge of which they were primarily liable.

What is the criterion by which to judge whether the provinces had revenues and services which they could call their own? There is, of course, the administrative criterion by which it would be possible to say that anything which a Province administered was provincial. But that criterion cannot be a final criterion. For, whatever may be the view regarding the origin of administrative polities or regarding what their position should be in an ideal organization, yet all regional rights of an administrative polity are in modern times exercised in the main, not in virtue of any social compact or the mere discharge of certain functions, but in virtue of a general law. The question must therefore be decided with reference to the law which defined the status of the Provincial Governments in British India.

Did the Provinces have a legal title to the revenues? Although it is uncertain whether or not those who spoke of Provincial revenues invested the term provincial with a legal status there is no doubt that it had acquired such a connotation in ordinary parlance. Even the Provincial Governments, who ought to have known better, thought and argued that by the provincialization of revenue what the Government of India passed on to them was not the mere usufruct but a title to the revenue. But the Government of India had always been prompt in suppressing such pretences. The facts are patent that provincial settlements were revisable every five years, that the usufruct was not perpetual and that the Government of India could resume it at the end of five years if it wanted. This is made quite clear in answer to the pretensions advanced by the Government of Bengal in a letter No. 284 of January 14, 1882, from which the following is extracted :—

> "For the sake of diminution of friction and other well-known objects which need not be specified, the Imperial Government delegated a share in its administration to Local Governments. It makes a rough calculation that a certain portion of the general income, together with the increment thereon, will suffice to meet

> the expenditure which it retains under its own control, and it hands the rest over to Local Governments, with the obligation to meet out of it certain necessary expenditure.... But it cannot bind itself to this proportion for ever, because the calculation must necessarily be a rough one, and is liable to be vitiated by unforeseen failure of resources, or growths of charges, whether in the share of financial administration which it retains or in that which it delegates. An examination of the appropriation and a readjustment of it in any particular found necessary are indispensable. A surrender of the right to this would be analogous in its nature and effects to the Permanent Settlement of Bengal."

Although anxiety was expressed for the provinces the revisions were primarily conducted in the interests of the Imperial Government as the resumptions incontrovertibly proved, and the Permanent Settlement was delayed because the Government of India did not desire to relinquish its control over its revenues. Under the quinquennial settlement the usufruct was permitted to be undisturbed for five years only. But how tentative was this surrender, which, even for five years, was looked upon as highly impolitic by the Secretary of State,[1] was proved by the Government of India, which did not take back to exercise its inherent right to resume the usufruct of its revenues at any time it liked as is indicated by the not too uncommon levies or benevolences, as they were called, which it forced upon the provincial balances. Not even the Permanent Settlement can be interpreted to mean that the revenues settled upon the different Provinces became their revenues in anything like a legal sense, for in the eye of the law all revenues including those provincialized still remained the constitutional possession of the Government of India. Whether the Government could have effected a legal separation by ivesting itself of the revenues of India in favour of the Provinces is doubtful. The Parliamentary enactment which vests the revenues of India in the Government of India had limited the legislative powers of the Government of India by a clause which prevented it from

> "making any laws or Regulations which shall in any way repeal, vary, suspend or affect any of the provisions of this Act (of 1833).... or the Prerogative of the Crown or the Authority of Parliament."

[1] Cf. Despatches to the Government of India No. 51, dated February 16, 1882, and No. 208, dated July 6, 1882.

At least it is significant that it has required an Act of Parliament to do so. But the Government of India had not made any legal separation of the title to the revenues, and if it could have done that by its own law it could have undone it as well. Nor can it be said that the separation of Provincial revenues involved separate possession. If the Provincial Governments had been allowed to establish their own treasuries to receive the collections from Provincialized revenues, then Provincial revenues in the sense of separate possession could have had a meaning. But by the rules, Provincial Governments were not to deposit their funds elsewhere than in the treasury of the Imperial Government. Consequently the possession of the revenues remained in the hands of the Government of India and the disbursement from the provincial revenues was carried out from the Imperial Treasury by the officers of the Imperial Government. None the less, the view was hard to die. But such an erroneous view was never more confidently stated than by the Honourable Mr. Sayani, and never more forcibly controverted than by Sir James Westland in a passage-at-arms between the two on the occasion of a Budget debate in the Council Hall of the Government of India from which the following is reproduced :—

The Honourable Mr. Sayani said :—

> "The whole theory underlying the system (of Provincial Finance) is that the revenues of the country, far from belonging to the Provinces which raise them or being available for their own requirements.... constitute a common fund to be absolutely at the disposal of the Central Government, out of which it is to dole out what amount it pleases for provincial services."

Catching the condemnatory tone of these comments, the Finance Minister, Sir James Westland, rose to say :—

> "The Honourable Mr. Sayani, if I correctly followed him, stated that the arrangements of the Government of India were made upon the theory that the revenues were not the revenues of the separate Provinces and were not applicable to the expenditure of the several Provinces, but were the revenues of a common fund, the Local Governments being merely the agents of the Government of India for their realization. I think he mentioned the theory in some words like these, only for the purpose of condemning it. Well, I wish to assert that theory in the most positive manner I can. The revenues are the revenues of the Government of India—its Constitutional Possession. The Government of India is a body created by Act of Parliament, and

> if reference be made to that Act of Parliament it will be seen that the revenues of India are the revenues of the Government of India and of that Government alone. Every action that the Local Government takes in respect of them must be justified by a specific order of the Government of India; the Local Governments derive their powers entirely from the Government of India, and apart from that Government they exercise no financial powers whatsoever."[1]

Again, if the financial relationship between the Central and Provincial Governments in India were based upon the principle of separation of sources and contributions from the yield, what ought to have been shown was the existence of legal responsibility of the Provinces for the services they administered. It is true there was a certain division of functions between the Central and Provincial Governments in India analogous to what existed between the Central and State Governments in most of the federal countries. But it must, however, be remembered that this division of functions had no sanction in law and no legal responsibility attached to the provinces for any of the services, not even for those provincialized. The entire responsibility by law rested on the shoulders of the Imperial Government and it could not absolve itself of that responsibility by transferring it on to any of the Provinces. That the Provinces accepted the financial responsibility for some of the Imperial services was their choice. That they could not be compelled to undertake them was proved in a singular manner by Madras refusing to accept such responsibility in 1877. By law it was thus the Government of India which was responsible for peace, order and good government in the country. All services were therefore necessarily Imperial in status undertaken by the Government of India in discharge of its constitutional obligations.

It is therefore obvious that the view which posited that the relationship between the Central and Provincial Governments in British India was one of separation of sources and contributions from the yield was an untenable view. The Government of almost every country in these days is carried on by an inter-related group of polities operating in specific areas and discharging specific public functions ; and it may well be that in any two given countries the number of polities engaged in carrying on the work of government is the same. But it is quite erroneous to argue from that fact that the nature of their inter-relationship must have been alike. It is therefore as well to invite attention to the point that the ordered

[1] Financial Statement, 1897-8, p. 110, etc.

relationship between such inter-related polities depends upon which of them is the law-giving polity. It will be granted that in such group of polities there is one that is supreme in the sense that from a variety of reasons mostly historical it is competent to give law to the other polities. In federal countries it is the State Governments which are the law-giving polities. They occupy a pivotal position. They are the depositories of sovereign powers original as well as residuary. They can claim independent existence, have their own resources and discharge their own functions. The Federal Government, on the other hand, is the creature of the State Governments. It can have no powers and no functions other than those which the States have been pleased to transfer to it by an act of self-abnegation. It is therefore truthful as well as becoming to speak of the financial relationship between the State and Federal governments as one of separation of sources and contributions from the yield.[1] For there the States have their separate resources which they lawfully own and can therefore be spoken of as surrendering their revenues to make contributions to the Central Government after paying for their own services. But the same was inconsistent with the position of the Provincial Governments. Far from pivotal, the Provincial Governments formed the weakest entities in the group of administrative polities functioning in India. Up to 1833 the Provinces had separate rights to surrender in a *foedus* and had the government of India been then organized on a federal basis the position of the Provinces would have been very much the same as those of the States in federal countries. But with the establishment of the Imperial system by the Act of 1833 the last chance of creating a federation in India vanished. By that Act the sovereignty of the Provinces was so entirely crushed that no trace was left of it to permit of a truly federal element ever to enter into their relationship with the Central Government. Since that Act the government of the country has been entrusted to a single authority charged with the sole responsibility for the good government of the country. As no single administration could support the Atlantean load of governing such a vast country with the help of central bureaux, great powers were delegated to the Provincial Governments. But this must not obscure the fact that they were literally the

[1] Of course, it is not necessary that there should be a federal system. A legalized system of decentralization will be equally compatible with separation of sources and contributions from the yield.

"agents of the Government of India." Common usage had elevated the term "Provincial" to a proud position. Along with Provincial Revenues it had been usual to speak of Provincial Services, Provincial Civil Servants, Provincial Courts, etc., as if all these and other things constitutionally belonged to the Provincial Governments. But the usage was full of irony. For, when one recalls the provisions of the constitutional law of the land, so far from thinking of them as Sovereign authorities one felt inclined to say that notwithstanding their high-sounding apparatus of Governors and Councils it was not appropriate to call them Governments. In any case the Provincial Governments had no legal powers or functions which polities designated as Governments have been known to possess. The fact is the Indian system of polity was diametrically opposed to the federal system of polity. It was a centralized system in which there was nothing Provincial; what appeared to be Provincial was but the regional aspect of the Imperial. It was therefore untruthful and overbecoming to speak of the financial relationship between the Provincial and Central Governments in India as being one of separation of sources and contributions from the yield. For here the Provinces had no separate resources which they lawfully owned, and could not therefore be spoken of as surrendering their revenues to make contributions to the Central Government after paying for what may be supposed to have been their own services—a supposition rigorously excluded by the law of the constitution.

If the complex code of limitations discussed in the last chapter had the effect, which it was not unreasonable to expect, of revealing the true nature of Provincial Finance, such a view as the one herein criticized could never have prevailed. That notwithstanding the existence of these limitations there should have been men who instead of wondering as to what remained of Provincial Finance when it was regulated by such limitations, argued with the confidence of the ignorant that the system was independent in its organization, is itself a proof that in their study of Provincial Finance the study of its limitations formed no part. Otherwise a reference to that code would have shown that if the Provinces had separate revenues and separate services they would have had powers of alienating whatever revenues they liked, of spending on any service they desired, of framing their Budget Estimates with

a view to any particular policy they decided to adopt, and of arranging for supplementary grants in any manner they chose. But such powers they never had. Indeed no greater proof could be furnished in support of the view that everything had remained imperial in status after 1870, as it was before 1870, than is afforded by these limitations on the working of Provincial Finance.

If separation of sources and contributions from the yield as a theory of the financial relationship between the Central and Provincial Government in India was incompatible with the facts of the case, what theory was there which could be said to have been compatible with the position as defined by law? We may at once proceed to state that the only theory of financial relationship between the two governments which accorded with facts and agreed with law was that of *aggregation of the sources and distribution of the yield.*

It may seem fallacious to speak of aggregation of sources when what the Government of India gave to the Provinces was assignment of revenues and shares of revenues. To this the reply is not difficult. It has already been made clear that Provincial Finance did not involve a *de jure,* separation of sources. Nor was there a *de facto* separation either. For as has been remarked before, all revenues whether assigned or reserved were collected into the Imperial treasury and were thence paid out on all approved Government transactions. Obviously, when all the revenues are thrown into a common pool, it cannot be said without unduly straining the imagination that what the Provinces were given were revenues.[1] The collections from all sources of revenue being inextricably mixed up, the only proper view is to say that what was given to the Provinces were funds. The expressions Budget by Assignments, Budget by Assigned or Shared Revenues are in a certain sense all fictitious phrases. In all the stages of Provincial Finance what the Provinces were supplied with were funds. Under the assignment stage the supply granted was a definitely fixed sum and the only difference made as a consequence of the replacement of Assignments by Assigned or Shared Revenues was that the supply, instead of being a fixed sum, was a sum

[1] The remarks made by Captain Pretyman, M.P., in his evidence before the Royal Commission on local taxation in England with regard to the revenues assigned to Local Governments may be cited in this connection. He said: "I absolutely hold that it is imposible to say that you give a contribution from Imperial Taxation from a particular source. A man might just as well pour a bucket of water into a pond and then go and hook it out again and say that he had hooked out the same bucket of water. The taxes are paid into the Imperial Exchequer and the contribution is made from the Imperial Exchequer, and to say that you select a particular sum of money as the produce of a particular tax and that you hand that over is, I think a fallacious statement altogether." Vol. 1 of Min. of Evid. C. 8763 of 1898, Q. 9873.

which varied in amount with variations in the yield of the Assigned or Shared Revenues. But all the same it was a supply of funds and nothing more. It is even incorrect to say that the Government of India *gave* funds to the Provincial Governments for meeting the expenditure on the services the responsibility for which was undertaken by them. As a matter of fact, the receiving as well as the disbursing of all public money, including the provincial portion of it, remained in the hands of the Government of India. The only proper expression, if it is to be true to facts, would be to say that Provincial Finances simply meant that the Government of India opened a Provincial Services Account in its Treasury books which varied with the yield of the Assigned or Shared Revenues and on which and to its extent only the Provincial Governments were permitted to draw.

Thus there was a complete aggregation of the sources of revenue in the hands of the Government of India. From this fact it follows that instead of the Provinces contributing from their funds it was the Government of India which distributed the yield of its taxes among the Provinces. The situation could not be otherwise. For it should be recalled that in virtue of the Act of 1833 the financial responsibility for the services undertaken to subserve the ends of peace, order and good government rested upon the Government of India. While some of the services were administered directly by the Government of India, owing to the well-nigh impossibility of managing directly from a central bureau the affairs of a country as vast as the continent of Europe minus Russia, many of the services attaching to the Imperial Government were left to be administered under its supervision by the Provincial Government. The weak point of the situation, as has been remarked, consisted in the fact that the administrative and financial responsibility did not rest on one and the same authority as should have been the case. On the other hand at the end of every financial year all Provincial Governments sent in their estimates of the charges for the services they administered to the Government of India in the Financial Department, leaving the obligation of refusing, curtailing or granting the supply asked for to the Government of India to discharge as best it could. Not having the obligation to

find the money, the Provinces tended to make extravagant demands. And the Government of India, not being in possession of the details, was unable to judge of the true requirements of each service. Being afraid of failure of its responsibility as much by too little trust as by too much trust in the estimates sent to it, it was often obliged to submit to extravagance of the Provinces, which as we saw brought on the crisis of 1859. To avoid this fatality there was instituted the system of Provincial Finance under which the Government of India distributed its funds among the Provinces, and the Provinces in their turn undertook to manage *some* of the services which they administered for the Government of India *within* the sum which came to them severally out of this distribution.

This being the nature of the financial relationship, the criticisms of the system of Provincial Finance on the ground of inequity were quite inapplicable. Contributions must be according to ability, but distribution must be according to needs in order to make it equitable. If the system of Provincial Finance was to be impeached on the ground of inequity, then it was necessary to have shown that the distribution was unfair. Even here it may perhaps be shown that the different Provinces got different amounts if measured by their population or their area. But it must be remembered that the distribution was not primarily among the Provinces, but among the various departments, whether controlled by the Government of India or by the Provincial Governments. This could make a considerable difference in the equity of the distribution; for, the needs of the areas within the jurisdiction of the different administrative polities must be very different and cannot certainly be held to be coterminous with the needs of the departments maintained under them. The distribution of funds by the Government of India was not based upon the principle of each Province according to its needs but upon the principle of each department according to its needs. It was therefore futile to criticize the equity of the system on any other principle.

Thus interpreted, the system of Provincial Finance must strike as of the nature of what may be called Departmental Finance, something quite different from Decentralized Finance or Federal

Finance. This view cannot be far wrong from the true view as supported by the facts of the case. As in the case of Departmental Finance every Department of the State has a certain grant fixed for it in the Budget and it then draws upon the Treasury to the extent of the grant. In the same manner Provincial Governments were given a certain consolidated grant for the departments they managed and for the expense of which they were to draw upon the Imperial Treasury to the extent of the grant. Notwithstanding Provincial Finance, nothing was provincial in its status. The revenues, the services, the Civil Service, were as strictly Imperial in status after 1870, when Provincial Finance came into being, as they were before 1870, when there was no such thing as Provincial Finance in existence. It is therefore no exaggeration to say that Provincial Finance, instead of being an independent system of Finance involving freedom to tax and freedom to spend, was only a matter of accounts, the operations on the debit and credit side of which were subject to stringent control on the part of the Government of India.

This means that there was no change in the nature of the financial relationship between the Central and Provincial Governments as a result of the introduction of the scheme of Provincial Finance. The relationship of aggregation of sources and distribution of the yield was not a new one but was as old as 1833. It was a financial counterpart of the Imperial system then established. It was because there was no alteration in the relationship that Provincial Governments, even with Provincial Finance, far from becoming separate clocks, each with its own mainsprings in itself, remained as before the departments of the Government of India. Such a conclusion is bound to be regarded as somewhat of a startling character. There can, however, be no doubt that it is true and that no other conclusion is possible, given the legal relationship of the Provincial and Central Governments in British India. But if Provincial Finance is only a matter of accounts then, were there no changes that followed in its wake, in the financial organization of the Imperial system? It would be idle to deny that any change took place in the financial organization of Imperial system owing to the introduction of the scheme of Provincial

Finance, and equally idle to assert that some fundamental change had taken place in consequence thereof. To be just, only two changes worth speaking of may be said to have resulted from the introduction of Provincial Finance :—

(1) Before 1870 balances on *all* services lapsed to the Government of India at the close of the financial year. After 1870 all unspent balances on the services delegated to the management of Provincial Governments remained at their disposal and formed a part of their resources for the ensuing year.

(2) Before 1870 Budget estimates on all services had to be sanctioned by the Government of India and the Provinces could not undertake any reappropriations between the different grants for the year, even if it was found necessary, without the previous sanction of the Government of India. After 1870 the Provinces were left to a greater extent free to distribute their expenditure in any way they thought proper among the various services delegated to their management, provided their total expenditure did not exceed the funds lying in the Imperial treasury to their credit respectively.[1] But by the rules they were required to maintain all the services under thier management in a state of administrative efficiency. Similarly after 1870 the Provincial Government had complete freedom which they never enjoyed before to carry on reappropriations between the grants under their management without the sanction of the Government of India, provided their total expenditure did not exceed the amount budgeted for the year.

[1] Whether they could materially alter the distribution of the grants on the different services delegated to them is doubtful. In his despatch No. 30, dated December 10, 1874, in the Revenue Department, on a proposal by the late Lord Hobart, Governor of Madras, to discontinue the grant made from provincial funds for Roads and to devote the money to education, the Secretary of State wrote ; "I am unable to reconcile it with the principles which govern the so-called provincial administration of the revenue. I am not, indeed, of opinion that the same relative proportion which existed, on the introduction of the system, between the services made over and the expenditure upon them, should always be maintained. But I agree with Mr. Sim, that there was an implied engagement to maintain all these departments in full efficiency and integrity and an implied understanding that no one of them should be wholly sacrificed to the others, or to any other. The new financial arrangements in question were most fully discussed, both by the various Indian Governments as constituted at the time, and by the Home Government. During this discussion it was certainly never suggested that an effect of the change might be to put a stop to the construction of new roads in some parts of India; if such an eventuality had been considered probable, I doubt whether the change would have been made."

For the purposes of visualization the financial relationship between the Provinces and the Government of India may be likened to the Hindu Joint Family System with the Patria Potestas vested in the latter. Before 1870 the similarity between the two was more or less exact. Like the family property of the Hindus the revenues of India were jointly enjoyed by all the departments whether under Central or Provincial management without metes and bounds being fixed to the shares of any one of them. After 1870 the only change that took place consisted in the cesser of commensality and the fixing of metes and bounds to the shares of each in the common property according to their respective needs. The system remained a joint family system, although separate accounts were opened by the head of the family, namely the Government of India, to guard against any member overdrawing the amount placed to his credit.

Were these results worth striving for? On the results achieved in consequence of Provincial Finance a variety of opinion has been expressed. But if we judge of the results as we ought to in the light of the antecedents that gave rise to the system in 1870, it cannot be said that the hopes entertained were in any way belied. It is only when critics, solely because of their misunderstanding of the nature of Provincial Finance, sought for results which were never intended by its promotors that an adverse pronouncement came to be made. But if we keep clear of these misunderstandings and never lose sight of the fact that in 1870 what the Provinces wanted was freedom and the Government of India stability, none can assert that this compromise between Imperialism and Federalism was tried in vain. How great was the freedom gained by the provinces can be appreciated only when it is realized that before 1870 the Governor of Bengal could make

> "no alteration in the allowances of the public servants.... establish a new school or augment the pay of a daroga (watchman) to the extent of a Rupee,"[1]

nor could the Governor of Bombay have a lock made[2] without a vote of the Council of India. Nor can the importance of the large

[1] *Calcutta Review,* Vol. 3, p. 169.

[1] Report of the Committee on the Affairs of the East India Co., 1852, Vol. 10.

measure of stability derived from it be fully realized unless it is borne in mind how before 1870 the Government of India was left between the devil and the deep sea by having to refuse or to accept the bewildering demands ranging from dustbins for a Department to education for the people made by the Provinces on its not too large resources. The Provincial Governments had been saved the delay and the indignity in having to depend upon the Government of India for sanction of the meanest of their wants. The Imperial Government on the other hand was saved the fumbling task of scrutinizing the most trivial of demands and grant or reject it, but always under the apprehension of having done wrong by acting either way. The system not only gave freedom to the Provinces and stability to the Government of India, but had replaced the irresponsibility and extravagance which had proved the bane of the Imperial System by economy and responsibility, for by setting bounds to the funds of the Provincial Governments the Government of India had ended in setting bounds to itself. These results, it is true, did not satisfy the critics of Provincial Finance. More in other directions was expected of it, but that could have been possible only if Provincial Finance was a system independent in its organization. So long as Provincial Finance was a part of Imperial Finance, inseparably linked to it, it could have yielded no greater results than have followed from it, and those that have followed are by no means slight.

There, however, remains the question that, although it was not possible to alter the nature of Provincial Finance, whether it would not have been feasible to enlarge its scope by relaxing the limitations imposed upon it by the Government of India without in any way interfering with the due discharge by it of its own responsibilities. That aspect of the question will be examined in the next chapter.

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CHAPTER IX
THE ENLARGEMENT OF THE SCOPE OF PROVINCIAL FINANCE

It used to be made a matter of complaint that the system of Provincial Finance was unjust in that under it the Government of India conscripted, at every revision of the financial settlement, the increases in the revenues given over to the management of the Provinces, either for its own benefit on the pretext of meeting the requirements of the Central Exchequer or for the benefit of such of the Provinces as had by inertia not cared to improve their resources on the pretext of tempering the wind to the shorn lamb. There was a good deal of truth in this complaint in the early period of Provincial Finance. Being the custodian of the funds, the Government of india did often put the consideration of Imperial Services above that for the Provincialized Services. In the early period of Provincial Finance the prevailing idea[1] in the distribution of funds was not how much of the revenues assigned under the expiring settlement could be continued to be usefully spent on heads of expenditure controlled by Provincial Governments, but how much of the general revenues consistently with its obligations, and having regard to the growth of demands upon its resources during the currency of the settlement, could the Government of India surrender for a further period to the Provincial Governments in order to enable them to meet whatever expenditure was essential to the conduct of their administration. This attitude of the Government of India, justifiable as it was by the financial stringency of the period, changed as the financial condition became easy, so that in the latter period

> "the distribution of revenues between the Provincial and Central Governments was made, except on occasions of grave emergency, with direct reference not to the needs of the Central Government but to the outlay which each Province might reasonably claim to incur upon the services which it

[1] Finance Department Resolution No. 458 of January 28, 1881.

> administered. The first step taken in concluding a settlement was to ascertain the needs of the Province and assign revenue to meet them; the residue only of the income of the Province coming into the Imperial Exchequer."[1]

With the shifting of emphasis on the competing needs of the Central and Provincial Governments the complaints on the score of unfair distribution of funds ceased, and no fear of an adverse revision remained when the settlements were declared permanent. There, however, remained the other main objection to the system of Provincial Finance, namely, that the limitations imposed upon it tended to reduce the Provincial Government to a nonentity by restricting the scope of their activity within the field allotted to it.

It was said that if the system of Provincial Finance was inaugurated on the understanding by which the Government of India said to the Provinces

> "Take what we are able to give you, and for the residue take certain powers of taxation and raise it yourself.... for there are subjects which can be dealt with far better by local than by imperial taxation,"

there was no reason why the Provinces should not have been allowed the freedom to tax. Again, if certain resources had been made over to the Provinces, what justification was there in not allowing them to raise loans for promoting purposes of local utility? This restriction was particularly resented; for, it was pointed out that even the humblest Local Authority in India enjoyed the power to raise loans to effect improvements in its respective jurisdiction, while such an important polity as a Provincial Government was deemed unworthy of shouldering such a responsibility. Indeed it was felt as a most galling restriction, for under it it happened that a Provincial Government which was deemed to have enough credit to be accepted as security by the Government of India against loans to other local bodies subordinate to it, was ruled to have no credit to pledge in its own behalf !

What, again, was the justification for limitations on the spending powers of the Provincial Governments in the matter of staff and establishments? If the administration of certain services had been entrusted to the Provincial Governments, why should they have been circumscribed in the matter of

[1] Finance Department Resolution No. 27 dated May 18,1912.

creating new or abolishing old appointments or revising the establishments of their departments? If under the system of Provincial Finance the Provinces were responsible for the services they managed, why should they not have been trusted with powers to make needful changes in the agencies which carried out those services?

Further, it was asked, what justification was there for the limitations on the preparation and execution of the Provincial Budgets ? If separate Budgets had been carved for each of the Provinces out of what once formed an Imperial Budget for the whole of India, why should the Provinces have been required to submit their Budgets to the Government of India? Merely as a matter of conveying information the requirement was comparatively of a trifling character. But why should the Government of India have claimed to alter their estimates and compel them to abide by the grants as fixed by it? Was such a scrutiny of Provincial Budgets a cover for dictating a policy to the Provincial Governments? If this was so, what was the scope for initiative and freedom left to the Provinces which it was the primary object of Provincial Finance to promote and of the permanent settlements to ensure? Again, why should a Provincial Government have been required to come to the Government of India for a supplementary grant as it had to do where the excess over estimates could not be met by reappropriations, even when it had balances to its credit so sufficient as not to be reduced below the required minimum by a draft to meet the excess?

For each of these limitations which fettered the Provincial Governments and contracted the scope of Provincial Finance, the Government of India was of course ready with abundant excuses.[1] In the matter of revenue restrictions it urged that the revenues of India were its constitutional possession for the proper disposal of which it was responsible to the Secretary of State and Parliament. That being the case it was fair that the Government of India should require that the sources assigned to the Provinces should not be alienated nor spent on unauthorized grants or unapproved services. Again, being responsible for all services it followed that the Government of India could not have afforded to weaken its position as to managing the resources of

[1] In this connection, cf. Evidence of Mr. J. S. Meston before the Royal Commission on Decentralization. Mit. of Evid., Vol. X, Q. 44807—45336.

the country by partitioning the taxing or borrowing powers. The field for taxation in India being considerably limited, an indiscriminate levy of taxes by a competing authority, it was feared, would have led either to discontent by additions[1] to the Imperial imposts or to a retrenchment of the field for Imperial taxation. The concentration of borrowing powers in its hands, the Government of India urged, was a natural corollary of the statutory hypothecation of all India revenues to all-India needs. The Government of India could not allow its revenues to be mortgaged by a Provincial Government for its own needs. Besides it was afraid[2] that if this freedom to borrow were granted

> "the temptation to hypothecate revenues in advance might become inconveniently strong, and the future administration of a Province might be starved because a former Government had been in a hurry to proceed with some costly ambitions and non-productive project."

Moreover, the loan market in India, it was said, was as limited as the taxable capacity of the country. Therefore

> "if many buckets are dipping into one well and drought cuts short the supply of water, obviously the chief proprietor of the well must take it upon himself to regulate the drawings."[3]

In the matter of specific restrictions on spending powers with respect to staff and establishments, the defence of the Government of India was that such restrictions were necessary in the interest of uniformity and economy. It was urged that if each province was allowed the freedom to regulate the remuneration of the Public Service which carried on the actual work of administration the result would probably have been unequal pay for equal work. Such a consequence would have engendered discontent in the servants of the State which it was desirable to prevent in the interest of good administration. Again, if the Provinces had been given full freedom to revise establishments it might have resulted in considerable additions to the recurring expenditure of the Provinces, thereby jeopardizing the stability of the Provincial as well as of the Imperial finance, for in the last resort the Government of India was responsible for maintaining the Provincial Governments.

[1] Between 1870 and 18.79, when the Provinces had a freer hand h the matter of local taxation, all of them selected the already overburdened basis of taxation, viz. land for their levy.

[2] *R.C.D.* Mit. of Evid., Vol. X, Q. 45310.

[3] Report on Indian Constitutional Reforms, Cd. 9109 of 1918, p. 94, hereafter called Joint Report.

In the matter of control over the preparation and execution of Provincial Budgets the Government of India urged that the scrutiny was not motivated by a desire to control an unwelcome policy,[1] but was inevitable because of the three important ties by which the Provincial Budgets were bound up with the Budget of the Government of India. These were (1) the incorporation of the income and expenditure of the Provincial Governments into the Budget and the Annual Accounts of the Government of India as an integral part thereof; (2) the system of divided heads of revenue and expenditure, and (3) a common treasury involving a combined "ways and means" for the transaction of the Central and Provincial Governments. The first two points of inter-relation required that the Government of India should examine the Budget Estimates of the Provincial Governments. It was urged[2] that the power to make such alterations was rendered specially necessary by the inveterate tendency of Local Governments to over-estimate their expenditure and under-estimate their revenue. Estimates which departed widely from actuals meant bad finance and also a provision of larger ways and means for the working of the Treasury. But even if this tendency was absent it was incumbent on the Government of India to scrutinize the Provincial Estimates in order to preserve accuracy in the combined accounts. Besides the interests of accuracy, the Government of India had to ascertain by a scrutiny of their estimates that a Province did not impair the stability of its finances by (1) including in its budget expenditure on schemes which had not received due administrative sanction, or was not likely to receive such sanction in time to be incurred during the year; or (2) by entering on an enhanced scale of expenditure a Province was not unduly depleting its balances. But by far the strongest reason why the Government of India needed to scrutinize the Provincial Estimates consisted in the fact that in so far as some of the Heads of Accounts were shared, the ultimate result of the Central Budget, whether there was to be a surplus or deficit, depended upon the accuracy of the estimates. The Government of India, it was urged, was thus directly interested in the Provincial Budgets, and could not have abandoned its right to scrutinize them without exposing its budgetary system to serious

[1] *R.C.D.,* Mit. of Evid., Vol, X, Q. 44981.

[2] *R.C.D.,* Mit. of Evid., Vol. X, Q. 44863.

derangement. The third point of inter-relationship necessitated that the Provincial Governments should work within the grants as fixed finally by the Government of India. To have allowed the Provincial Governments the liberty to exceed the grants because they had ample balances to their credit would have been incompatible[1] with the responsibility of the Imperial Government to provide the ways and means for the whole administration of the country. A provincial balance, it was pointed out, was not a separate balance locked up in a separate provincial chest. It was a part of the general balances on which the Government of India operated daily. If a sudden demand uncontemplated in the Budget were to be made upon these balances, as would have been the case if the Provincial Governments had exceeded their budget grants, it would have disturbed the ways and means transaction and would have involved the Government into insolvency by causing insufficiency of cash.

All these defences of the restrictions on Provincial Governments were plausible defences and could have been decisive if the centralized system of administration in favour of which they were urged could be deemed to have satisfied the ends of good government. But it was not unreasonable to argue as was done by the Provincial Governments[2] that modern tendencies were all moving in the direction of forms of government which placed fullest powers as low down in the administrative scale (i.e. as near the section of population immediately affected) as could be safely arranged. It is reasonable to centralize such powers as could not be efficiently exercised otherwise. But it is equally unreasonable to centralize powers where central control or uniformity is not clearly essential or is impracticable. By centralization all progress tends to be retarded, all initiative liable to be checked and the sense of responsibility of Local Authorities greatly impaired. Besides, centralization involves and must involve a serious sacrifice of elasticity, for it is naturally disagreeable to a central department to have to deal with half a dozen different ways of managing the same branch of administration, and which therefore aims at reducing all types to one. Further centralization conflicts with what may be regarded as a cardinal principle of good government, namely, that when administrative business reached an authority fully competent to deal with it, that authority should deal with it finally. Even when

[1] *R.C.D.,* Mit. of Evid, Vol. X, Q. 44865.

[2] In this connection see the very trenchant memorandum by the Government of Bombay on Decentralization, *R. C. D.,* Mit. of Evid., Vol. VIII, Appendix II.