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## PREFACE

In the following pages are reproduced some of my contributions to the Press and the proceedings of the Legislative Assembly on the financial settlement between the Central and Provincial Governments under the reformed constitution. It is gratifying to note that this subject has begun to engage greater public attention in Bengal than before. I am afraid that neither the people nor the Government of Bengal were sufficiently alive to the iniquity of the financial aspect of the reform proposals as originally made in the Montagu-Chelmsford report. And the result has been disastrous to the finances of Bengal. I hope that henceforward the attitude of our provincial Government, in fighting for a recognition of Bengal's just claims, will be characterised by a real desire to co-operate with her popular representatives—which, in my experience of the Legislative Assembly, has not been the case so far. How I wish the Government of Bengal could take a leaf out of the book of the Governments of Bombay and Madras in this matter!

Legislative Assembly,  
Simla;  
August 18, 1927.

K. C. NEOGY.

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## PROVINCIAL CONTRIBUTIONS.

We do not know if it was a mere coincidence that the full text of the Meston Committee's report could be published by certain newspapers only in those two provinces that have been most favoured by the Committee in their recommendations. The press of Madras, however, does not appear to appreciate this courtesy. *New India* has, for instance, condemned the report in a merciless manner. Our contemporary is at pains to prove that the committee want to perpetrate the grossest injustice (!!) on Madras. Though we hold the quite contrary view, we do not find any difficulty in agreeing with our friend that "the Committee's treatment of the problem is characterised throughout by glaring inconsistency, gross lapses in logic and arbitrary methods of calculation." Indeed, to our mind the Committee appeared in a more favourable light in the summaries hitherto published, than in the full text of their report which is a curious mixture of vague uncertainties, contradictions and haphazard logic, on the one hand, and pontifical assertions on the other. If the future finance of the provinces is to be jerry-built in this happy-go-lucky fashion, Heaven help the Reforms! In determining the amount of direct contributions to be made by the provinces to the Government of India, the Committee admit the claim of certain provinces (including Bengal) to exemption from the levy in virtue of their indirect contributions through customs and income-tax. But though they seem to support the comparatively light contributions to the initial provincial levy, in the case of such provinces on this consideration, they start off the very next moment to lay down the equitable scale to be reached by forced marches in the next six years, basing it on arbitrary grounds. The indirect contributions appear to lose their money value from the year 1922-23, because forsooth the valiant Committee feel quite befogged in an atmosphere of uncertainty which they were expected to peer through. Thus we have the report saying :

"A valuation of the amount of this indirect contribution involves an exact arithmetical calculation of the proportion of the total sum collected under each of these heads of revenue which is properly attributable to each province. For such a calculation the statistical information available as to the distribution of the revenue between the provinces is not adequate. Under the head of customs, the locality in which dutiable articles are consumed cannot be traced with sufficient accuracy ; under that of income-tax, questions of the utmost complexity arise to the true source of the income assessed—questions which the information in the hands of the assessing officers does not enable them to answer."

After this confession as to insufficiency of data or ineptitude—whichever it may be—one would not expect any reasonable person to persist in a quest for the absolute standard of 'equity'. But no, the doughty champions of financial equity announce in the next breath that they have found it possible to arrive at an estimate of the weight which should be given in fixing the basis for equitable contributions. What this estimate is in the case of each individual province, the Committee do not condescend to tell us, though perhaps it is not difficult to imagine from the specific recommendations made in the report, that this is anything but favourable to Bengal.

Having thus disposed of quite cavalierly our claim in regard to indirect contributions, the Committee turn to fixing the ideal basis for an equitable distribution of the provincial levy. But here, again, they confess to being confronted with serious practical difficulties. The capacity of a province to contribute, we are informed, is its taxable capacity, though the statistical information available does not permit of any direct valuation, and the results of past inquiries cannot be considered reliable. The Committee then go on to enumerate certain factors which may furnish the necessary information adding that "none of them is capable of serving either alone or in conjunction with others, as an accurate or even an approximate arithmetical measure of those capacities." For all these reasons the Committee give up the idea of stating a formula to serve as a basis for the standard ratio of direct contributions, but at once they surprise us by proceeding to recommend a fixed ratio of contributions, which in their opinion, represents a standard and equitable distribution of the burden of any deficit. The amazing method reminds one of the magic performances with which every one is familiar. They suggest, first of all, the besetting difficulties of the matter, and bewilder the audience by bringing about them, in the twinkling of an eye, what appeared wholly impossible the moment before. The analogy between the two does not, however, hold good in one important particular. No one expects the conjuror to explain the processes of his clever feats, while the value of a Committee's finding on such a serious subject exclusively depends upon the weight of the reasons advanced in its support. Judged by this standard the Meston Committee have miserably failed in their mission. We may add that we are not quite prepared to credit them with an unerring intuitive faculty, or second sight, which alone can invest their recommendations with unquestionable authority. And our hope is that the Selborne Committee will rate their recommendations at their proper worth.

(The Bengalee, 21st May, 1920.—Editorial.)

## THE MESTON REPORT AND FINANCIAL RELATIONS.

Lord Meston's Report has produced a painful impression on the public mind of Bengal. Bengal is shorn of what she has a right to claim as her legitimate revenue, and she is saddled with the heaviest contribution to the Imperial deficit. As we pointed out in a recent issue, she will barely have, under the Meston Report, more than half a crore of rupees as her working balance for purposes of administration; and then comes the grave prospect of heavy expenditure for her reformed University. The whole outlook is serious, and the Meston Report must, so far as Bengal is concerned, be recast. Bengal's contribution to the Imperial deficit is to grow to 19 per cent by progressive stages, while that of Madras will be 17, of Bombay 13, of the United Provinces 18, of the Punjab 9, of Behar 10, of the Central Provinces 5, and of Assam 2½. And while this heavy and growing contribution is imposed upon Bengal, our province is shorn of the sources of revenue to which she is fairly entitled. Let us take one about which there can be no doubt or dispute, we mean the export duty on jute. Jute is the monopoly of Bengal. The export duty is levied on an article which is peculiar to Bengal and is

produced nowhere else. It is really in the nature of an excise duty and can hardly be included in customs. Public opinion, European and Indian, is unanimous in the demand for the provincialization of this revenue. The President of the Bengal Chamber of Commerce in the course of his last annual address urged that the export duty on jute should be made over to Bengal. He said "I see no reason why the export duty on jute should not be ear-marked towards a net-work of agricultural agents spread over all jute-growing districts in Bengal who would actively assist the cultivators and persuade them by free gifts of seed and fertilizers to demonstrate not only for themselves but also to their fellow-cultivator the benefits that undoubtedly accrue from scientific methods of cultivation." Here is this unanimity of opinion on the subject and among all sections of the community, European and Indian, in Bengal. The Meston Report, therefore, in this matter errs against this fundamental canon and is opposed to the unanimous public opinion of the province. What is more, if what we recommend is not given effect to, the experiment of responsible government will at any rate in Bengal have to be started under conditions which will seriously interfere with its success. Whether responsible government is to be a success or a failure must depend very largely on the financial conditions which are provided at the first start. The Reform Scheme has been steered with consummate statesmanship through many dangers and difficulties, but it may, in Bengal at least, be wrecked on the rock of finance; and we desire to raise a warning note. If our suggestion be accepted, a redistribution of contributions by the different provinces will be necessary. A scheme of re-construction must follow our criticism. We have considered the matter. A re-adjustment is quite feasible without serious dislocation of the Meston scheme or hardship to any province. We hope to address ourselves to this task in a future issue.

(The Bengalee, 23rd May, 1920—Editorial.)

### FINANCIAL INIQUITY.

"The limit we have imposed on ourselves is that in no case may a contribution be such as would force the province to embark on new taxation 'ad hoc' which to our mind would be an unthinkable sequel to a purely administrative re-arrangement of abundant general resources." In these words the Meston Committee lay down one of the guiding principles of their financial scheme. They further explain this limiting consideration as

"an obligation to leave each province with reasonable working surplus which we should prefer to calculate, so far as possible, with some relation to the general financial position of the province and the more imminent claims upon its resources."

At another place of their report, however, the Meston Committee observe as follows:

"We were also pressed to make allowances for schemes of future expenditure to which special importance was attached; but to this we have been unable to accede, as it is not our task to make budget forecast."

It would appear from the above that the Committee seek to draw a fine distinction between imminent and future expenditure. And in judging what may be termed imminent expenditure they are not presumably prepared to look even quite as far as their nose. For, we find that the Committee are not disposed to make allowance for the impending increase in the cost of administration. Indeed, they are not at all troubled by this aspect of the expenditure side of the account. "These future liabilities would have to be faced," observe the Committee, "if no Reforms Scheme had come." They evidently forget that if the existing system of financial dependence of the provinces upon the Government of India were to be perpetrated, it would be the look-out of the latter to make due provision for such increased financial obligations in the case of all the provinces. Then again, the Committee base their recommendations mostly on the statements of normal revenue and expenditure of the provinces as prepared at the Simla Conference about a year ago, and have little or no reference to the provincial budgets for the year 1920-21. Otherwise they would have found that much of what they dismiss from their consideration as future expenditure had already passed into the pages of the Provincial budget as definite financial obligation. A lump provision has, for instance, been made in the current Bengal budget of Rs. 22 lakhs and odd for giving effect to certain reorganisation schemes relating to the higher services during the year. Then, there are other items of expenditure which are sure to figure in the very first budget of the Reformed Council, such as those relating to the inauguration or further reorganisation of services and departments as a necessary concomitant of the reforms, as also the very urgent claims of the non-gazetted establishments of Government to revision of pay regarding which, strangely enough, the authorities have not thought fit to prepare even any estimate as yet. Add to this the recurring and non-recurring grants to be made to the Calcutta and Dacca Universities as a result of certain reforms initiated by the Government of India without much reference to the financial capacity of Bengal. Then again, there is the provincialization of certain pension obligations hitherto reckoned as Imperial. The Meston Committee, however, strive to transcend these considerations with the off-hand observation that "these future liabilities would have to be faced by each province if no reforms scheme had come." We question the accuracy of the observation, because not a little of the expansion in expenditure is directly or indirectly traceable to the reforms. It cannot be gainsaid that the increase in the scale of pay of certain higher services has its origin not only in the recommendations of the Public Services Commission, but also in the claim put forward in the interest of these services for compensation, for the altered conditions under which they would henceforth be placed. No one can resist this conclusion on reading the recommendations of the Montagu-Chelmsford report regarding the necessity of the improvement of the European services, which have recently taken shape in reorganisation schemes matured in hot haste. This, moreover, explains the deliberate indecent postponement of consideration of the far more urgent claims of the subordinate staff to revision of pay. While the Committee choose to be blind to this important aspect of the financial commitments of the province, they are careful to take into consideration the fact that so far as Madras and the United Provinces are concerned "considerable arrears of administrative progress are now due." It is conveniently forgotten that the inevitable and imminent expansion will affect the different provinces in different degrees according to their respective surpluses, and in the case



of those provinces which have a comparatively inelastic revenue, the increased spending power will be very nearly reduced to a nullity and there will be no escape from fresh taxation.

To our mind a great injustice has been done to Bengal by the Committee in calculating her taxable capacity and fixing her contribution. Justifying the contribution to be levied on Bombay the Committee observe that she has attained a scale of expenditure far above the Indian average and the pace of expansion of its revenue is distinctly higher than in any other province. They then proceed to state as follows :—

“Bengal, on the other hand, has a low scale of expenditure and an inelastic revenue ; and it will receive only a very moderate start in its new financial career. But its size, intrinsic wealth and general economic possibilities prevented us from treating it more favourably than the other provinces in this category.”

It is to be seen that when definite facts fail to support a large contribution being assessed on Bengal, vague fancies are resorted to by the Committee for gilding her pill. All through the Meston Committee report, it has been a “head we win, tail you lose” business, and Bengal has lost all along the line. Is the loss of income-tax to be palliated ? The Committee assure us that “several of the provinces and Bombay, in particular, may look for reasonable elasticity in their revenues apart from the income-tax.” They then proceed to give a tabular statement showing the percentage of growth in revenue during the years 1912-13 to 1920-21 under the heads now proposed to be provincialised ; and we find the percentages are as follows :—

Madras	...	...	...	...	29'06
Bombay	...	...	...	...	52'43
Bengal	...	...	...	...	22'30
U. P.	...	...	...	...	20'82
Punjab	...	...	...	...	34'88
Burma	...	...	...	...	33'65
B & O.	...	...	...	...	11'20
C. P.	...	...	...	...	33'18
Assam	...	...	...	...	28'00

And the average of the nine provinces taken together is 30'48 per cent. The elasticity of revenue with which we are asked to console ourselves is wholly a myth so far as Bengal is concerned, being less than what it is in most of the provinces. But while much commiseration is felt by the Committee for Madras and the United Provinces because their revenues do not promise any remarkable elasticity, we do not find a word of sympathy for Bengal whose percentage of growth of revenue under the new provincial heads is much less than in Madras and just a little better than in the U. P.

The Committee feel constrained to admit that credit should be given to the provinces for their indirect contributions to the Central exchequer, particularly in income-tax and customs revenues. But they refuse to follow the obviously reasonable course of giving credit to each



province for the amounts raised under these heads within her boundaries. They engage in a mad quest after the ideal scale of apportionment of these reve nues according to their exact incidence on each province. They confess to a miserable failure in this endeavour, but suspect that the claims of certain provinces in this connection are overstated and exaggerated. Next the Committee proceed to ascertain the taxable capacity of the provinces, and among the measures of such capacity on which they rely after a good deal of fumbling for the right standard, mention is made of the "amount of income-tax collected." Nothing of the frantic search here, after "the true local source of the income assessed," but the amount actually collected in a province suffices to condemn or bless her. In plainer words, Bengal cannot get sufficient exemption from her direct contribution because her indirect contribution in the shape of income-tax and customs cannot be ascertained with any exactitude by the Committee, owing to the difficulty in finding out the true source of the income assessed. But when they have to discover the taxable capacity, no such niceties trouble the Committee. Bengal's taxable capacity is to be measured by the amount of income-tax collected there. Or, in other words, Bengal's direct contribution must be largest, because her indirect contribution (in the shape of income-tax and customs) is also the largest. For, is not the amount of these revenues a test of her taxable capacity? The Committee start by admitting "the claim of certain provinces to exemption from the levy in virtue of their indirect contributions through customs and income-tax to the Government of India," and they end by practically assessing the levy, not in inverse but in equal proportion to these indirect contributions.

(The Bengalee, May 29th, 1920—Editorial.)

## FINANCIAL RULES.

### EFFECT OF JOINT COMMITTEE REPORT.

Much misapprehension appears to prevail in regard to the nature and extent of the modifications effected by the Parliamentary Joint Committee in the financial rules based on the report of Lord Meston's Committee. This is entirely due to a misleading cablegram of Reuter's published sometime back, which purports to give a summary of the report of the Joint Committee. The Government of India, when recently interpellated on the subject, did not attempt to clear up the confusion, their reply being that they had no information beyond what was contained in Reuter's cable. Surprising though it may seem, the present writer had obtained by the mail previous to the said reply was given a copy of the second Report of the Joint Committee, 10th August, 1920, and the Draft rules under Sections 1, 2, 4 (3), 10 (3), 12, 46 and 33 of the Government of India Act, 1919, as approved by the said Committee. On a perusal of these papers, it appears that the changes made in the Meston Committee's recommendations will not immediately lead to any considerable practical advantage to Bengal, unless some special concession be made to her as suggested by the Joint Committee.

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The rules have since undergone certain changes, as a reference to the Devolution Rules will show.

So far as the scale of contributions to be made by the Provinces to the Government of India is concerned, it is gratifying to note that the contribution to be made by Bengal shall not exceed 63 lakhs in any year. The sliding scale is substantially modified in the sense that the initial rate of contributions shall not be increased in any case, though the amounts will diminish progressively with the decrease in the Imperial deficit, in the case of those provinces whose initial rates of contributions exceed those laid down as the standard scale attainable in seven years under the Meston Committee's recommendations. This is undoubtedly a change of some importance.

The share of the revenue from the tax on incomes, which is sought to be assigned to the Provinces, will not be such as to justify the satisfaction that it appears to have caused in the public mind. For, what is thus conceded is after all nothing more than "a share in the growth of revenue derived from income-tax collected in the Province, so far as that growth is attributable to an increase in the amount of income assessed." The gain to the provinces will thus be appreciable if and when the revenue from income-tax expands to a substantial degree, the immediate advantage being altogether negligible.

There seems to be a contradiction between the Report of the Joint Committee and the Rules as amended by them, in regard to the allocation to the Provinces of a share of revenue from taxation on incomes. The Report says that approximately 25 per cent of the gross revenue from Income-tax and Super-Tax (which share is estimated to amount to Rs.400 lacs in 1920-21) will be distributed among the provinces. Rule 15, clause (1) says that "there shall be allocated to each local Government a share in the income-tax collected under the Indian Income-tax Act, 1918, within its jurisdiction." It is added that 400 lacs will approximately represent this share for all the provinces taken collectively. As Super-Tax is levied under a distinct Act (VIII of 1917) the omission to name it specifically in the Rule seems to be accidental. The intention of the Joint Committee to include Super-Tax is clear from their Report, as also from the fact that 400 lacs mentioned in Rule 15 (1) represents approximately 25 per cent of the estimated receipts from Income-Tax and Super-Tax in 1920-21.

It will be noticed that the share of each province in this amount of 400 lacs will be determined by the Governor-General in Council in the form of "a specified number of pies of the amount collected on each rupee brought under assessment." The Joint Committee do not appear to contemplate the pie-rate to be uniform in the case of all the provinces.

But what is given with one hand seems to be taken away with the other. Rule 15 (2) lays down that "in consideration of this allocation, each local Government shall make to the Governor-General in Council a fixed annual assignment of a sum to be determined by the Governor-General in Council as the equivalent of the net amount which would have accrued to the local Government in the year 1920-21, had the pie-rate to be fixed under sub-rule (1) been applied in that year." The share of the Income-tax revenue to be allocated to a province will, at least in the first year, be thus wholly counterbalanced by the assignment to be made by it to the Central Government. But the wording of sub-rule (2) lends itself

to the interpretation that this assignment need not be exact equivalent of the share of Income-tax that would have accrued to a province under the pie-rate on the basis of the estimated receipt for 1920-21. All that it says is that the assignment should be a sum "to be determined by the Governor-General in Council as the equivalent." This seems to be the only reasonable construction, because otherwise there would be no gain to the province till some future date when the pie-rate yielded a larger amount than the assignment. Again, it will be seen that under sub-clause (3), the local Government has to bear 25 per cent of the cost of the special Income-tax establishment. This obligation cannot be justly placed on the shoulders of a local Government, unless accompanied by some immediate gain as a compensating advantage.

There is some risk in fixing the assignment on the basis of the estimated receipts for 1920-21. Because it must not be forgotten that the recent inflation in the Income-tax receipts is not a little due to the prevalence of abnormal trade conditions during and after the War, and may suffer a shrinkage. The proper course would be to fix the assignment on the basis of average receipts during the last few years.

So far as Bengal is concerned, the most important feature of the Report of the Joint Committee is "their recognition of the peculiar financial difficulties of the Presidency of Bengal which they accordingly commend to the special consideration of the Government of India." The question arises, in what manner should this recommendation be given effect to. Three courses seem to be open to the Government of India for carrying out this recommendation.

(1) The pie-rate of the share of Income-tax revenue may be fixed higher than 25 per cent in the case of Bengal. This, injustice to the other provinces, may necessitate the fixing of proportion of the cost of Income-tax establishment, to be borne by the provinces, not at 25 per cent as recommended in clause (3) of Rule 15, but at the corresponding pie-rate in each case.

(2) The assignment to be made to the Central Government under Rule 15 (2), may be fixed at a low figure in the case of Bengal, so as to yield to her a substantial net gain from Income-tax revenue.

(3) An additional source of revenue may be assigned to Bengal under clause (h) of rule 14, which authorises the Government of India to allocate to the provinces any sources of revenue in addition to those specially mentioned. The most appropriate revenue which can be allocated to Bengal, in the exercise of this discretion vested in the Central Government, is the receipt from Customs Duty on the export of jute, or at least a substantial portion thereof.

It should be carefully borne in mind that Bengal would have to start on her new career with a large deficit, unless liberal effect were given to the recommendations of the Joint Committee to accord special treatment to her. Bengal's financial position should be examined with reference to the budgetted expenditure for 1920-21, which is very much in excess of the standard scale of expenditure adopted at the Simla Conference of 1919 on the basis of which the provincial requirements have been calculated. Special regard should also be had to the imminent addition to Bengal's financial obligations resulting directly from the introduction

of the Reforms and the adoption of revised scales of salary and pension for the various branches of Public Service. Taking all circumstances into consideration one may doubt the wisdom of leaving the final decision of Bengal's case to the discretion of the Government of India. It is to be hoped that an earnest attempt will be made for having the recommendations for special treatment of Bengal translated into definite action such as will meet with her financial requirements.

Kshitish Chandra Neogy.

(The Bengalee, September 25, 1920.)

## FINANCIAL SCHEME.

### BENGAL'S PREDICAMENT.

Perhaps it can be safely asserted that the financial scheme in connexion with the coming reforms in India is almost as unprecedented for a beginning in federal Government—to which type the Indian constitution is expected ultimately to approximate—as the new-fangled system of 'diarchy' or duality that is to be set up. But while 'diarchy' is characteristic of all the imperfections of a transitional machinery, and is marked by a desire to concede a minimum of power to popular representatives in the provinces, the new constitution, in the financial aspect, aims at a more or less complete liberalisation of the provinces from the tutelage of the Central Government. It is intended to determine tax jurisdictions, and effect separation of resources, as between Central and Provincial Governments, once for all, with a completeness unexampled except to a certain extent in the United States of America at the present day. But whatever financial separation there is between the Federal and State Governments in U.S.A. is to be ascribed to the historical accident that the State Governments were prior in order of time to the Central Government, the condition in India being quite the reverse. Again, the division of revenues in U.S.A. follows a distinct principle that all direct taxes belong to the States, and the indirect taxes to the Federal Government. It was only by what is known as the "Sixteenth Amendment" that income-tax was made an exception in 1913, and added to the list of Federal resources, though it continued to be open to a State to impose an additional income-tax within its jurisdiction. The result now is that the direct taxes, with the exception of the Federal income-tax, are appropriated by the States. While thus there is a complete division of financial jurisdiction in all outward appearances, certain American authorities note the tendency of late years for the federal authority to gain in influence in taxation matters, and some even go to the length of suggesting that suitable constitutional amendment should be made authorising the Federal Government in U.S.A. to levy and distribute all taxes for the benefit of the States. Turning to the colonies we find that in Canada a large part of the provincial revenues is derived from the proceeds of taxes that are administered by the Central Government. This feature is repeated in the constitutions of the Australian Commonwealth and the Union of South Africa, in a more pronounced form. Indeed, though the federation of the Australian States was effected two decades ago, the

financial clauses of their constitution still bear the impress of a transitional arrangement under which the provinces are entitled to certain shares of Commonwealth revenue. Under the Union constitution the South African States enjoy far less financial independence, deriving as they do a substantial proportion of their income from Union revenue. It is interesting to note that while in 1917-18, 11·7 per cent of the total revenue of all the Australian States was represented by the Commonwealth subsidy (varying from 22·64 per cent in Tasmania to 9·69 per cent. in South Australia), in South Africa, the Union subsidy generally represents about 75 per cent of the provincial income in the Cape of Good Hope and Natal, 50 per cent. in the Transvaal and about 40 per cent. in the Orange Free State. Again, to take one continental example, in Germany the proceeds of certain indirect taxes are divided between the Federal and the State Governments. Thus, on a study of the federal constitutions in different states of development, one does not come across a single instance in which the provinces do not enjoy the benefit of central revenues to a substantial degree and in proportions varying generally with requirements of the individual provinces.

In India, on the other hand, the position is sought to be altogether reversed, and the Central Government made dependent—at least for some years to come—on provincial contributions. The Montagu-Chelmsford report proceeded on the assumption that complete financial autonomy of the provinces was a condition of general administrative autonomy. This view was emphasised particularly because of the untenable character of the financial arrangements hitherto subsisting between the Central and provincial administrations. The present system of provincial settlements based on a narrow basis of 'doles' was particularly discountenanced because this arrangement, which has on the whole worked successfully between two official Governments, would be quite impossible between a popular and an official Government. The authorities sought a complete bifurcation of resources, proceeding more on theoretical considerations than otherwise and overlooking historical circumstances. And, as the result, we had a rigid scheme of fiscal devolution characterised by academic precision and artificial symmetry in its outward proportions but without any reference to the requirements in each individual case. "The real considerations involved in the choice of revenues for conflicting tax jurisdictions are the considerations of efficiency, of suitability and of adequacy". This canon of federal finance has been overlooked in making the allocation of revenue heads as between the Central and provincial Governments. It may be conceded that in the Central list Customs, Railways etc., answer the first two tests as to efficiency and suitability just as Land Revenue and Excise do in the Provincial schedule. So far as Income-tax is concerned, the fact that it is to continue to be administered provincially\* involves an admission that though a central resource it can be administered more efficiently by the Provincial Governments. The financial scheme, however, breaks down completely when judged by the supreme test of adequacy. The central budget leaves a deficit to be met by a levy on the provinces, and the Provincial Governments are left in varying degrees of affluence or bankruptcy. This is no inconvenience to the central authority, because of the levy, and because also of the fact that

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\* Income-tax has since then been taken over by the Government of India for direct administration.



the Provincial revenues, are so to say, mortgaged to it to be drawn upon in any emergency. But what of the Provinces? Some of them would be rolling in wealth, without knowing for the first few years, how to make proper use of it—as admitted even by some of the local leaders of public opinion. Others again, would be left with large deficits to be met, if at all, by fresh taxation from the every outset. And all the cause of this is the arbitrary method of marking of revenue heads as “Central” and “Provincial”, respectively, and refusal to take into consideration the immediate financial needs of the different provinces. In this view, the Meston Committee miserably failed in their professed object of avoiding imposition of burdens merely as the result of the distribution of what otherwise constitute ample resources for all India.

But the worst effect of the Meston Committee recommendations has been the rousing of a not altogether healthy spirit of provincial competition if not jealousy—in the matter of financial allotments. Provinces which expect windfalls, have been encouraged to look upon them as their minimum dues. They do not care if progress is penalised in any other provinces. Parochial predilections blind us to the obvious fact that if India is to progress on the path to responsible government, all the provinces should march forward at the same pace as far as possible. If success in one province is counterbalanced by failure in another, there will not be much reason for elation over a temporary stroke of luck in an individual case. But those who benefit by the obviously iniquitous financial scheme have persuaded themselves to believe that it provides the only equitable solution of the problem. It is forgotten, for instance, that Bengal which contributes the largest shares of the Central revenues is to be left with slender resources because the heads of revenue labelled “provincial” do not owing to historical causes, yield in her case a large or expansive income. To ask to be given full credit for all the revenues derived within the borders of the province, is considered to be heresy. But it is instructive to know that this is exactly the case in Australia, where under clause 87 of its constitution (better known as the Braddon clause) “each state was to be credited with the federal revenue collected in respect of that state, and to be debited with the expenditure incurred on its behalf in connexion with the transferred departments as well as with its share, on a per capita basis, of the new expenditure of the commonwealth.” Under this system, until the end of 1910, it was provided that the Commonwealth should retain for its own use not more than one-fourth of the customs and excise duties, the balance being returned to the States. After 1910, and up to the present year, the Commonwealth has been taking the whole of customs and excise revenues, and making to each State an annual payment of 25 shillings per head of its population. It has been agreed that from the year 1920-21, the States would receive 22s. 6d. per head of population which would go on diminishing by 2s. 6d. yearly till 1925-26 when there would be a further revision.

As an American authority observes “more and more the fiscal problem is being envisaged as a totality, and the relative claims of the community, State and Central Governments are being considered from the point of view of an equitable distribution of the entire burden resting upon the individual or the class. This is the most recent phase of modern tax reform—the most distinctive aspect of the modern

movement." If this holds good in the case of U. S. A., a willing federation of independent States, how much more should the principle govern the relations of the Provinces with the Central Government in India that has constituted since the beginning of British administration, the sole fiscal authority and the sole arbiter of the financial destinies of the Provinces. There is at least no reason why the new system should produce a wide disparity between the incidence of resources of the respective provincial administrations—a disparity which was unknown when they used to draw from a common pool. It must be admitted that the artificial rigidity which characterised the original scheme of financial devolution as framed in the Montagu-Chelmsford report and as subsequently developed through different stages down to the Meston Committee report has been relaxed to some extent by the Parliamentary Joint Committee in their recent report on the financial rules. For instance, they make an important concession of principle in allowing to the provinces a share in the growth of income-taxes whatever that may be worth in the immediate future. It is further provided that this share may be in varying proportions in the case of the different provinces according to the discretion of the Government of India. There is the further discretion for the Government of India to provincialise any additional source of revenue and to make other payments to the local Government "either for services rendered or otherwise." It is a matter of great regret that in the financial sphere much of what is provided for by statute in the case of the colonial constitutions, has been left to the unfettered discretion of the Central Government. The financial rules seem to recognise the possibility of a differential treatment of the financial needs of the provinces: there is, indeed, in the report of the Joint Committee, a specific recommendation to the Government of India to consider the peculiar financial difficulties of Bengal. It would have been quite in accordance with precedent to embody in the rules special provisions that might be necessary to give a fair start to any individual local Government. For example, in South Africa where too they had a Committee on Financial Relations, the constitution as amended in 1913, provides, among other things, for a special annual subsidy of £100,000 in each case to Natal and the Orange Free State the funds otherwise placed at their disposal being insufficient to balance the commencing expenditure of these provinces. This is undoubtedly in addition to the ordinary Union subsidy of half the ordinary annual expenditure in the different Provinces to which reference has already been made. It is worthy of note that from May 1910, when the Union was constituted till April 1913, there was a temporary arrangement under which the whole of the funds required by the Provinces were provided by grants from the Union exchequer, all revenues being also credited thereto.

If these precedents are worth anything surely there ought not to be any qualms of conscience in making special statutory provision for Bengal by giving her the proceeds of the export duty on jute. We should point out in the clearest manner to the authorities in England, that without such a substantial addition to our resources the future administration of Bengal would be a mad absurdity.

Kshitish Chandra Neogy.  
(The Bengalee, October 2, 1920.)



## FINANCIAL DIFFICULTIES OF BENGAL.

*(Extract from Budget Speech, March 8th 1921.)*

Sir, a good deal has been said on the unwelcome features of the Budget, let us devoutly hope, will prove to be merely passing phases of the fickle fortunes of our finance. But I do not think we should omit to recognise the remarkable, indeed historic, departure in the financial policy of Government which this budget represents. It seeks to materialise a federal system of finance in which tax jurisdictions of the Central and Provincial Governments are completely demarcated. And one is struck by the fact that though on the administrative side the reformed constitution is at best a transitional arrangement, its financial counterpart represents a partition of revenues between the central and local Governments almost unexampled for its rigidity in the history of federal systems of finance. There is no recognition in the Indian constitution, as elsewhere in the Empire, of the responsibilities of the central authority for the financial stability of the Provincial Governments during the earlier stages at least of the constitutional experiment. I venture to think the transition from the system of provincial settlements, which represented 'rough equity,' to a complete separation of tax jurisdictions, with an instance of outward symmetry might have been made less sudden as has been the case with Australia and Canada where the States share with the central authority some of the revenues even after years of the introduction of a federal type of Government. It may be noted that the South African States are still more dependent on the Union subsidy.

Again, this principle of apportionment of revenues between Federal and Central or Central and Local Governments is recognised in practice in the continent of Europe and in England. The idea of divided heads of revenue is therefore not a heresy. And there is nothing inherently wrong if a province asks for a share of the income-tax or even of customs collection for which precedents are to be found in the colonies. Even in the United States the idea of the States Governments participating in the Federal income-tax is being seriously canvassed. So far as income-tax is concerned, the right of the provinces to a share is practically conceded in principle in our Financial rules, though unfortunately they do not appear to yield any net profit to either of those two presidencies which contribute the largest amount of income-tax, and for whose relief mainly the device under Devolution Rule 15 was evidently intended.

Sir, it may be said that this discussion is more or less of an academic character, but I submit it has a practical side as well.

Bengal has been very much disappointed not to find in the Budget any provision for giving effect to the recommendation of the Parliamentary Joint Committee for a special consideration of Bengal's peculiar financial difficulties. It was stated by the Hon. Mr. (now Sir) Hailey the other day that the recommendation on this question appeared to be obscure, and a reference has been made to the Secretary of State for its elucidation. It seems rather strange that though the recommendation reached Simla in September last, its obscurity did not evidently strike the authorities till somewhat later, and no final decision has yet been arrived at in the

matter. Meanwhile, Bengal has been clamouring for justice. She has been asking for the entire customs duty on jute exports which are Bengal's own monopoly. This alone can prevent her present deficit of over two crores becoming a chronic feature of her finance.

Sir, I venture to submit that the financial condition of Bengal has a direct bearing on the present financial proposals of Government of India. It is proposed to raise 8 crores from customs and  $3\frac{1}{4}$  crores from income-tax and super-tax as additional revenue. The customs as also the additional railway rate will ultimately be paid by the consumers. And when we bear in mind the fact, as it was stated by Sir William Meyer in February 1917 in reply to the Hon. Mr. Sarma, that a large portion of the consumers live in Bengal and Bombay, I can say without fear of contradiction that Bengal will have to find quite a large proportion of those imposts. In the recent past, Bengal has contributed about 55 per cent. of the total customs revenue and it can be safely asserted that excluding the probable share contributed by consumers outside Bengal, the undisputed contribution of Bengal proper to the central exchequer in customs duty represents at least 35 per cent. of its total proceeds. In other words, out of the additional 8 crores that you seek to raise this year from customs about 3 crores will have to be found by my people in Bengal.

Then again, take the case of income-tax and super-tax. It is proposed to raise an additional 3 crores from these sources. I will not take into account the normal growth of revenue under these heads; but of these 3 crores at least  $\frac{2}{3}$  will come out of Bengal; and  $\frac{1}{3}$  more from Bombay, judging from the usual contributions made by these two provinces.

And we remember that according to the calculations made by the Government of Bengal in their letter to the Government of India, dated April 1920, fully 90 per cent. of the income-tax raised in Bengal comes solely from Bengal. Thus when you add  $11\frac{1}{4}$  crores to your revenue under customs and taxes on income, you really ask the people in Bengal alone to contribute about 4 crores in addition to what they usually pay under these heads. If we consider the other proposals of new taxation, Bengal's share of the burden will not be found to be inconsiderable under them also.

I submit Sir, that in imposing new taxes Government should enquire about the financial condition of the particular parts of the country on which an unduly large burden would certainly fall. If you look at Bengal, you find that while a very large share of the new taxation will have to be shouldered by her, the revenue available for her own purposes for the coming year is short of her frugal scheme of expenditure by over two crores. And this is due to the most unjust and arbitrary method of distribution of our financial resources. Bengal received scant consideration from the Meston Committee. And, as a result, Bengal will have to embark on new taxation much sooner than perhaps was anticipated even by that Committee. It comes to this then. By your new financial adjustment, you are driving Bengal to resort to heavy taxation for her own needs, and you are, at the same time, imposing a heavy burden on her for the purpose of meeting your own deficit. Sir, I will ask Government to remember that there is a limit to Bengal's taxable capacity and there is a limit also to her patience. We want a liberal interpretation of the Joint Committee's recommendation about Bengal. It may, no doubt, have the effect of increasing the imperial deficit to a slight degree; but you will have the satisfaction of feeling that you have done justice to the claims of a wronged people. If taxation has to be increased for meeting this

increase of deficit, the broad shoulders of the central Government can alone be trusted to bear the responsibility in the peculiarly unfortunate circumstances in which the reforms have been inaugurated. To expose the new Provincial Governments to risks which an early imposition of taxes will inevitably involve, will be to court failure of the great object which we have in view, namely, the successful working of the reforms. If the reforms fail, your pampered military will find it difficult to hold the Empire together.

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## OPERATION OF DEVOLUTION RULE NO. 15.

PROVINCIAL GOVERNMENTS' SHARE IN INCOME-TAX AND SUPER-TAX REVENUE.

*(Legislative Assembly debates: 17th March, 1925.)*

Sir, I move that the Demand under the head "Taxes on Income" be reduced by Rs. 100.

As I have indicated on the notice paper, my intention is to discuss the operation of Devolution Rule No. 15 and the benefit derived by the various provinces thereunder. During the general discussion on the Budget the Meston Settlement came in for a good deal of criticism. I believe that there is a complete unanimity of opinion as to the necessity of revising the Meston Settlement. But I am not going into that question on this occasion. My intention is to draw the attention of the Government to the fact that Devolution Rule No. 15, which was intended to give the industrial provinces a share in the Taxes on Income, has failed in its primary object in so far as it does not benefit either Bombay or Bengal. Sir, I hope the House will bear with me a little when I give the brief history of this rule. As the House is aware, the Montagu-Chelmsford Report laid down the outlines of the financial re-arrangement as between the Central Government and the Provincial Governments which would be a feature of the proposed reformed constitution. It laid down that income-tax, which had so long been divided between the Central Government and the Provincial Governments, was to belong solely to the Government of India. This naturally aroused a good deal of opposition from Bombay and Bengal. And when the Meston Committee came out, a specific term of reference was added at the instance of Bombay, which raised the question as to whether the provinces were to get any share of the income-tax at all. The Meston Committee in dealing with that point observed as follows, in paragraph 7 of their report.

"We doubt if it will be possible permanently to exclude local Governments from some form of direct taxation upon the industrial and commercial earnings of their people and we recognise the natural anxiety of provinces to retain a share in a rapidly growing head of revenue. But so far as the income-tax is concerned, we see no reason to vary the scheme of the report."

Thereafter, when the matter came up before the Joint Parliamentary Committee, the Governments of Bombay and Bengal, and I think a number of public associations in those provinces, sent up representations to the authorities in England asking for a reconsideration of this matter. The Joint Parliamentary Committee had the advantage of consulting the Secretary of State's Council on the point, and then they proposed the addition of Devolution Rule 15 so as to meet the demand of these two provinces for a share of the income-tax. In their report on Devolution

Rule No. 15, the Joint Parliamentary Committee observe as follows:

"Certain provinces, particularly the three presidencies, are dissatisfied with the treatment of their own claims, and the Government of Bombay contest not only the amount of their contribution, but also the allocation of the heads of revenue on which the whole scheme is based. The Committee see no reason to differ from the fundamental features of the proposals, and they are definitely opposed to provincialising the taxation of income."

And a little later they proceed to observe as follows :

"None the less the Committee would be glad, on grounds of policy, to alleviate the disappointment caused by the restraints which the system of contribution lays on the employment by the provinces of their revenues. In searching for such alleviation they have been materially assisted by suggestions from the Council of India, a body to whose advice great weight attaches inasmuch as it is the authority charged by law with the responsibility of controlling the revenues of India. Accepting the more important of these suggestions the Committee are of opinion :

- (1) That there should be granted to all provinces some share in the growth of revenue from taxation on incomes so far as that growth is attributable to an increase in the amount of incomes assessed."

Then follow some suggestions which do not bear on this point. Now, Sir, we come to Devolution Rule No. 15, clause (1) which runs as follows :

"Whenever the assessed income of any year subsequent to the year 1920-21 exceeds in any Governor's Province or in the Province of Burma the assessed income of the year 1920-21, there shall be allocated to the local Government of that Province an amount calculated at the rate of three pies in each rupee of the amount of such excess."

Now, Sir, what is the result of the practical working of this Rule? I am indebted to the courtesy of Mr. Rau for the statistical statement I propose to lay on the table in this House, and which I trust will be incorporated as an appendix\* to this debate. When we examine this statement we find that in the last four years the Government of India have distributed about Rs. 90 lakhs to the different provinces under the provisions of Devolution Rule No. 15, and in the Budget this year they propose to set apart 25½ lakhs for the same purpose. When we examine the figures of the last four years we find that out of Rs. 89,96,000, Rs. 16,90,000 have fallen to the lot of Madras, Rs. 17,72,000 to Bombay, Rs. 95,000 only to Bengal, Rs. 3,53,000 to the United Provinces. Rs. 14,74,000 to the Punjab, Rs. 8,52,000 to Burma, Rs. 10,35,000 to Bihar and Orissa, Rs. 6,63,000 to the Central Provinces, and Rs. 10,62,000 to Assam.

When we come to the figures of the Budget year 1925-26, we find that out of a total of 25½ lakhs ;

2,00,000 go to Madras,  
 nil to Bombay,  
 nil to Bengal,  
 nil to the United Provinces,  
 4,94,000 to the Punjab,  
 8,28,000 to Burma,  
 4,88,000 to Bihar and Orissa,  
 nil to the Central Provinces, and  
 5,40,000 to Assam.

Now, Sir, surely it was not the intention of the Joint Parliamentary Committee that the two industrial provinces should be deprived of a share of the income-tax revenue and that the other provinces, for whose benefit it was not mainly intended, should come in for such large shares. But I do not complain that the other provinces derived some benefit under the provisions of this Rule. My complaint is that in fixing the figures for 1920-21 as the standard, the Government of India and the authorities in England did a great injustice both to Bombay and Bengal, for we find that 1920-21 was a year of unprecedented boom in the industrial conditions of these two provinces. The boom lingered for two years more in Bombay for we find that in 1921-22 they came in for Rs. 14,72,000 under this rule and in 1922-23 for 3 lakhs. After that Bombay has not got anything as the

result of the working of this rule. In Bengal, it was only in 1921-22 when the figure of 1920-21 was exceeded, with the result that she got Rs. 95,000 that year, and in the succeeding years she got nothing out of this arrangement. Now, Sir, I think it was unpardonable on the part of Government to overlook the fact that both these provinces were passing through abnormal conditions of trade in that year and one would have expected Government to point out to the authorities in England that it was unjust to take the figures of 1920-21 as the basis for calculation. Sir, as early as September 1920 when the draft rules framed by the Joint Parliamentary Committee were published even a humble student of politics like myself pointed out in a newspaper article, which I hold in my hand, that :

"there was some risk in fixing the assignment on the basis of receipts for 1920-21 because it must not be forgotten that the recent inflation is not a little due to the prevalence of abnormal conditions during and after the War, and may suffer a shrinkage . . . The proper course would be to fix the assignments on the basis of average receipts during the last few years."

That was the suggestion I put forward as early as September 1920.

Now, Sir, when we come to a province like Assam we find that in 1920-21 their income-tax receipts stood at a comparatively low figure, perhaps due to the fact that the tea trade was experiencing a slump, and as the tea trade has been recovering, we find that their share of income-tax under Devolution Rule 15 is going up by leaps and bounds. I maintain that it was wrong on the part of the authorities to take the figures of 1920-21 as the basis for calculation.

Sir, I am not concerned just now with the principles of federal finance. I am not going to enter into that vexed question as to whether income-tax receipts can as a principle of sound federal finance be claimed by the provinces to be shared with the Central Government. What I would point out is that unlike the Devolution Rules dealing with the provincial contributions, Rule 15 is meant to be a permanent feature of the present financial arrangement between the provinces and the Central Government. And so long as the revision of the Meston Settlement is not undertaken, this Devolution Rule will continue to operate to the hardship of the industrial provinces, because I think the Honourable the Finance Member will not contest my proposition that these two provinces cannot be expected to exceed the standard figures fixed by this rule in the near future. I take it, Sir, that the Joint Parliamentary Committee and the Government of India did not intend Devolution Rule 15 to be a joke so far as Bombay and Bengal are concerned. If that be so, may I appeal to Government to take this question up with the authorities in England and see that a proper basis of calculation is arrived at. I am not asking for any revolutionary change in the financial arrangements between the provinces and the Central Government. What I ask for is that you should give effect to the intention which the Joint Parliamentary Committee undoubtedly had in mind in framing Devolution Rule No. 15. Sir, the Honourable Finance Member is shortly proceeding home on leave. May I appeal to him to devote a part of his well-earned rest for the purpose of amending the rule in consultation with the authorities in England? Sir, it is not my intention to press this motion to a division. (*Cries of "Why not?"*) Well, I am entirely in the hands of the House; but I hope the reply which I am going to get from the Honourable Finance Member will be a hopeful one, and that he will agree to reopen this question in consultation with the authorities in England. I move my motion.



**The Honourable Sir Basil Blackett** (Finance Member): I fully recognise that the way in which this Rule has worked, has not been altogether satisfactory. . . . The proper way for its discussion would be for the Finance Members of the provinces who are particularly interested to bring it up on the agenda of the next Finance Members' Conference. . . . I do not remember its being brought to my notice—at any rate it has not been put as a formal matter for discussion and I would suggest that it might very well be brought up formally at the next conference. The motion was carried on division by 63 votes to 41.

### APPENDIX.

*Share of Income-tax paid to the Provincial Governments during—*

(In thousands of rupees.)

	1921-22.	1922-23.	1923-24.	1924-25 (Revised).	1925-26 (Budget).
Madras . . . . .	4,08	...	10,82	2,00	2,00
Bombay . . . . .	14,72	3,00	...	..	...
Bengal . . . . .	95	..	..	..	...
United Provinces . . . . .	3,20	33	..	..	..
Punjab . . . . .	30	5,69	4,24	4,51	4,94
Burma . . . . .	3,85	...	38	4,29	8,28
Bihar and Orissa . . . . .	58	2,87	2,55	4,35	4,88
Central Provinces . . . . .	90	1,49	3,42	82	..
Assam . . . . .	2	1,15	4,16	5,29	5,40
Total	28,60	14,53	25,57	21,26	25,50



## REMISSION OF PROVINCIAL CONTRIBUTIONS UNDER MESTON SETTLEMENT.

(Legislative Assembly debate: 21st Mar. 1925.)

In supporting the resolution moved by the Honourable Finance Member Sir Basil Blackett for securing a continuance of the remission of the annual contribution of Rs. 63 lakhs for Bengal along with partial remission of the contributions for some other Provinces for a period of three years more, viz., 1925-26, 1926-27 and 1927-28, Mr. K. C. Neogy said:

Sir, in their despatch, dated the 24th June, 1920, on the Meston Committee report, the Government of India stated as follows:

"We recognise the difficulties likely to arise from a continuance of the recriminations between the provinces regarding the comparative amounts that they should pay to the Central Government, and from this point of view alone we think it desirable that the provincial contributions should be abolished as soon as possible."

After having listened to the two Honourable Members who have just preceded me, I hope that we may yet be able to disappoint the Government of India in the prediction that they made in the despatch about this question raising provincial recriminations in this House. Sir, I maintain that so far as Bengal is concerned, we have tried to approach this question not from the narrow provincial point of view, but from the point of view of the wider national interest; and I will show by quoting from the latest representation which has been sent up on behalf of the people of Bengal to the Secretary of State that when we in Bengal ask for a revision of the financial arrangements we have not only the hard case of our own province in mind, but we plead for the betterment of the financial position of other provinces as well. This is what this representation states:

"My Council, though primarily interested in the financial position of the Local Government of Bengal are also vitally concerned with a just and equitable solution of the difficulties in the financial position of the Government of India as also of every province of India, for my Council appreciate that successful working of the reforms and the welfare of India generally must depend upon the sound financial position of every province as also of the Government of India. Approaching the problem, as our representation does, from this all-India point of view, the Council of my League trust that it will receive a sympathetic and prompt consideration from Your Lordship."

Sir, I very much hope that some consideration will be shown to Bengal in view of the stand she has made on behalf not merely of herself but to all the afflicted provinces of India. I am not unmindful of the sympathy and consideration that were extended to Bengal on the last occasion when the Government came up with a Resolution proposing the remission of the contribution from Bengal for three years, in 1921. And I trust that if we were entitled to that consideration at the hands of this House in a year of financial difficulties, in a year when this House was faced with the necessity of imposing fresh taxation in order to carry on the administration of the Central Government,—I trust that that consideration will not be denied to us to-day when the Government of India are in a position to distribute a respectable sum for the benefit of all the provinces. Sir, I was a little surprised the other day when an esteemed friend of mine who represents Bombay in this House raised the question as to why it was that Bengal was recommended for a remission of contribution for a further

period of three years, and he asked why were the Government of India giving so much weight to that one sentence of recommendation which finds place in the Joint Parliamentary Committee's report for giving special treatment to Bengal. Sir, I was very much surprised because the Honourable Member who made that statement generally takes a very wide and very lofty view of things that affect the welfare of the different provinces of India, whenever such questions come up for consideration here. I trust that he will revise his opinion and he will vote with us in regard to this matter to-day.

Sir, my Honourable friend Mr. Acharya wants to know what the special case of Bengal is to entitle her to this special treatment. The best reply that I could give to him would be by quoting from a despatch which the Government of Madras addressed to the Government of India on this financial question on the 1st June 1920. We find that in an annexure to that despatch it is pointed out that whereas the normal income settled at the Simla Conference, on the basis of which the Meston Committee proceeded, was in the case of Madras 14,42,00,000, and the normal expenditure settled at that Conference was 10,55 lakhs; and the normal income for Bombay was 11,48 lakhs and the normal expenditure 10,99 lakhs, the normal income of Bengal was fixed at 7,73 lakhs and the normal expenditure at 7,92 lakhs.

**Khan Bahadur W. M. Hussanally:** Will my friend give us the incidence of taxation in the different provinces?

**Mr K. C. Neogy:** I will try to meet my Honourable friend as far as I can.

**Diwan Bahadur T. Rangachariar:** And also the rate of expenditure

**Mr. K. C. Neogy:** Certainly, I am coming to that. The Simla Conference thus left Bengal in the singularly unhappy position of having been assessed at a low rate of expenditure which again exceeded the normal income settled at that Conference by 19 lakhs of rupees. Now, Sir, my Honourable friend Mr. Rangachariar wants to know the expenditure per head. I will come to that. I am quoting from a Parliamentary paper which includes the opinions of the different Local Governments and the Government of India on the Meston Committee's report. I find that the total annual expenditure per thousand of population for Bombay is given as Rs. 5,494, for Madras it is Rs. 2,573, and for Bengal it is Rs. 1,759. Then, Sir, I believe my Honourable friend Mr. Rangachariar would like to know how much we spend on subjects like medical relief, sanitation and other subjects. We find that Bombay spends Rs. 196 per thousand of population on medical relief, Madras spends Rs. 102 per thousand, and Bengal only Rs. 70; and I may in this connection remind my Honourable friends that the people of my province is a dying race. The rate of birth in some years has been less than the rate of death, and but for the fact of a regular influx of people from outside Bengal, the census figures would show a steady decline in the population of that province. Therefore, I trust my Honourable friends will, so far as this question of medical relief is concerned, be prepared to make it possible for Bengal to fight the scourges that account for the heavy toll is that is levied on her population. Now, Sir, I come to the expenditure per thousand on education. Bombay spends Rs. 653 per thousand of population on education.

**Mr. H. G. Cooke:** Will the Honourable Member kindly tell us, which year he is dealing with?

**Mr. K. C. Neogy :** I am quoting from an official statement bearing on the Meston Committee's report. I believe they took the figures as they found them at the time the Meston Committee's report came out. Bombay spends per thousand of population on education Rs. 653, Madras Rs. 312, and Bengal Rs. 201. Now I come to sanitation, Bombay spends per thousand of population Rs. 115, Madras Rs. 60, and Bengal Rs. 31.

**Mr. Kamini Kumar Chanda :** Assam ?

**Mr. K. C. Neogy :** The Assam figure does not appear in this list. It is not my intention to enter into a discussion as to whether we ought to get better relief than Madras or Bombay. My intention is to explain the peculiar position in which Bengal finds herself to-day, and the necessity for granting this relief, because my Honourable friend Mr. Acharya was anxious to know what the special circumstances of Bengal were to justify this special treatment. I had no intention of touching on this comparative aspect of the question but for the fact that my Honourable friend Mr. Acharya raised this question. Sir my Honourable friend Mr. Acharya also stated that Madras always has paid more to the central exchequer. I do not at present want to go into that vexed question as to whether we are entitled to take into account the contribution the provinces make in the shape of income-tax and customs duty to the central exchequer when we come to consider this question. I might incidentally mention, however, that in the year 1921-22 Bengal accounted for over five crores of rupees in the shape of income-tax out of a total of 26 crores and odd for all India, and 3 crores in the shape of super-tax out of a total of 8 crores odd for all India . . . .

**Mr. Devaki Prasad Sinha :** Sir, may I ask the Honourable Member whether he knows it or not that a good portion of the income-tax and super-tax paid in Bengal is derived from income that is earned in the province of Bihar and Orissa ?

**Mr. K. C. Neogy :** I will again satisfy my Honourable friend by quoting from the Parliamentary paper I have in my hand, where it is calculated by the Government of Bengal that 90 per cent. of the income-tax shown under Bengal is actually derived from income earned in Bengal. My Honourable friend might like to have a look at this paper, and I will be very glad to hand it over to him whenever he desires. Look at another figure, about which I believe there is no competitive claim from Bihar, and that is the Rs. 3,75 lakhs of revenue which comes out of Bengal in the shape of export duty on jute. However, Sir, I will not pursue the point further. My Honourable friend Mr. Phookun stated that the Honourable Finance Member was in this Resolution disturbing the Meston Award, was going against the despatch of the Secretary of State, and he characterised his attitude as disloyal to the Secretary of State. My Honourable friend must be very much mistaken in this view, because the Joint Parliamentary Committee wished the Government of India to extend special treatment to the Government of Bengal and this recommendation is certainly a part of the statutory arrangement embodied in the Devolution Rules. The Joint Parliamentary Committee did not themselves undertake the task of finding out the exact manner in which the relief should be granted to Bengal; otherwise I have no doubt that they would have embodied such relief in the Devolution Rules themselves. The only difference is that instead of making provision for it themselves in the Devolution Rules, they have left it to the choice of the Government of India to determine the particular manner in which such relief should be given to Bengal, and I take it that

recommendation of the Joint Parliamentary Committee constitutes a part of the statutory agreement between the Government of India and the Secretary of State . . . .

**Mr. T. R. Phookun :** May I ask if it is not a fact that the despatch I referred to was approved by the Secretary of State?

**Mr. K. C. Neogy :** Exactly so. I think my Honourable friend must have misread that despatch because I do not remember to have come across a single sentence in any single despatch either from India or from Whitehall bearing on this subject which disputes the fact that the provincial contributions have got to be wiped off as early as possible; and that is all that my Honourable friend, the Finance Member, is asking this House to agree to. And it is only when the provincial contributions are wiped off that the question of the reopening of the Meston Settlement can arise: that is the position that the Government of India and the Secretary of State have all along taken up.

**Diwan Bahadur T. Rangachariar :** My Honourable friend is aware that Bengal has not contributed a pie of her provincial money.

**Mr. K. C. Neogy :** She was not expected to contribute a pie as a result of the recommendation by the Joint Parliamentary Committee which is an essential part of the financial settlement between the provinces and the Government of India. I want to repeat that it is an accident that the Joint Parliamentary Committee did not themselves provide for this relief in the Devolution Rules. In their report on the Devolution Rules they make a definite recommendation that Bengal should be treated on a different basis altogether and they merely leave it to the discretion of the Government of India to determine the manner in which the relief should be granted, and the Government of India are to-day merely carrying out that recommendation of the Joint Parliamentary Committee . . . .

**Mr. Kamini Kumar Chanda :** May I know what is the correct interpretation of the passage in the Joint Parliamentary Committee's Report? Does it mean that the Government of India would have power for ever to make a remission or has this power not been exhausted when they remitted the provincial contribution for Bengal for three years? Is there any power left to the Government of India now?

**Mr. K. C. Neogy :** I will read out the particular recommendation to which I was referring. This is what the Committee say :

"The Committee desire to add their recognition of the peculiar financial difficulties of the Presidency of Bengal, which they accordingly commend to the special consideration of the Government of India."

When this matter came up for consideration in the year 1921, as I have already stated, the Government of India themselves were faced with an enormous difficulty and they could balance their Budget only after imposing fresh taxation on the people. Therefore it was, I think, that the Government of India instead of proposing any permanent remedy in this matter came up before this House with a recommendation for giving relief to Bengal for a period of three years. I do not suppose. . . . .

**Mr. T. R. Phookun :** May I ask Mr. Neogy if he maintains that the Government of India have power to alter at any time and for all time to come these financial arrangements?

**Mr. K. C. Neogy :** I maintain that according to the recommendation of the Joint Parliamentary Committee, it is open to the Government of

India to come up to this House with a recommendation like the one we have just now before us, to give relief to Bengal either for one year, or for a number of years, or permanently. That is what I maintain . . . .

**Mr. T. R. Phookun :** What happens then to the despatch I referred to?

**Mr K. C. Neogy :** The despatch certainly takes into account the recommendation that the Joint Parliamentary Committee made for the special benefit of Bengal, and it cannot be construed to mean as if the Committee were going to depart from the position they had taken up on that particular occasion. However, Sir, I have no intention of entering into a sort of wordy duel with my friend from the other provinces in this connection. Sir, I was a little surprised to find my Honourable friend, Mr. Phookun, taking up the cudgels against Bengal in this matter because, supposing . . . .

**Mr. T. R. Phookun :** I have no quarrel with Bengal; my quarrel is with the Honourable Finance Minister in upsetting the Devolution Rules and not taking our province into account.

**Mr. K. C. Neogy :** I am very glad to hear that he has no quarrel with Bengal. I am very much afraid that my Honourable friend has really overlooked the last clause of the Resolution as it now stands, because it proposes to grant 6 lakhs and odd for the benefit of Assam. If the Finance Member had strictly followed the letter of the Devolution Rules, where would Assam have been to-day? Besides that, as I stated the other day in connection with the discussion on the Devolution Rule 15, Assam has benefited beyond expectation under that rule, and if you take the amount which Assam gets as a share of the income-tax under Devolution Rule 15, and add it to the relief which she is going to get under this Resolution, I believe that she will find a very large proportion of her contribution is going to be remitted this year . . . .

**Mr. Kamini Kumar Chanda :** Do you know that Assam contributes an export duty—that on tea? This, I believe, amounted to 30 lakhs this year.

**Mr. K. C. Neogy :** I am very glad that my friend mentions that fact, because we ourselves have been asking for a share of the export duty on jute. However, when occasion arises, I am sure now that I will have the support of my Honourable friend Mr. Chanda in Bengal's fight for the export duty on jute.

**Mr. Kamini Kumar Chanda :** I can assure you of my support.

**Mr. K. C. Neogy :** Then my friend Mr. Phookun referred to what he called a sudden tendency . . . . (A Voice: "Not tendency, but tenderness.") . . . . a sudden tenderness on the part of the Government of India. I may remind him that this "sudden tenderness" dates from the year 1921, the very first year of the reformed administration. So that I do not suppose this tenderness has got anything to do with the circumstances which he mentions as having influenced the present policy of the Government of India. My Honourable friend the Finance Member has been charged with disloyalty to the Secretary of State, but, Sir, I would have certainly charged him with disloyalty to the whole financial understanding and to Parliament, if he had not come up with this recommendation so far as Bengal is concerned.



## TAXATION COMMITTEE AND PROVINCIAL GOVERNMENTS' SHARE IN INCOME-TAX AND SUPER-TAX.

(Legislative Assembly debate : 9th Mar. 1927.)

I beg to move :

"That the Demand under the head 'Taxes on Income' be reduced by Rs. 100."

My intention is to discuss the question of Devolution Rule 15, and the recommendations made by the Taxation Inquiry Committee in regard to that rule. According to the ruling given by you this morning, I am precluded from discussing the question of policy underlying Devolution Rule 15, which we discussed last year about this time under a cut of Rs. 100 moved by me and accepted by the House. Last year I pointed out that, although this rule was intended to give provinces which had a large income-tax revenue, like Bombay and Bengal, a share in the growth that was expected the income-tax revenue would show year by year. Those expectations of growth of revenue had been falsified so far as the two industrial provinces were concerned, with the result that while all the other provinces gained by the operation of this rule, the two provinces which were intended to benefit did not derive any benefit at all. On that occasion the Honourable the Finance Member stated that his attention had not been previously drawn to the defective working of this rule. And if I were to follow the example of my Honourable friend, Mr. Kabeerud-Din Ahmed, I could have justly said that my modesty would not prevent my saying that I was the first to draw the attention of the Government to this defective working of the rule. The Honourable the Finance Member also stated that he would take up this question at the next meeting of the Finance Members' Conference. I do not know what has been done in that matter, but meanwhile the Taxation Inquiry Committee had a good deal to say in regard to this question. They have examined the whole question regarding the income-tax and have suggested several alternative methods of giving the provinces a share in the income-tax revenue. Their recommendations are rather of a far-reaching character. My intention in raising a debate last year over this question was to draw attention to the defective working of this rule, apart from any question of the revision of the whole financial arrangement under the Devolution Rules. The Honourable the Finance Member in his budget speech the other day referred to the question of the Devolution Rule in paragraph 57 of his speech. And from his observations there I gather that it is perhaps his intention to take up this question, apart from the question of any general revision of the whole financial arrangement which is sometimes incorrectly described as the Meston Award. I want to know definitely whether that is his intention, and the idea that prompted me to give notice of this motion is to inquire from him what procedure he proposes to adopt in connection with this matter.

**The Honourable Sir Basil Blackett** said that he intended to take the whole question up in connection with the Taxation Committee's Report. He thought it was very important to all the provinces, and particularly to the provinces like Bengal and Bombay that they should feel that, if not at once, at any rate in the near future, they stood to get some cash value for progressive expenditure.

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## EXPORT DUTY ON JUTE.

(Legislative Assembly debate: 10th Mar. 1927.)

Sir, I beg to move that the Demand under head "Customs" be reduced by Rs. 100.

It is my intention to draw pointed attention of this House to an item of taxation which was levied in the exigencies of war finance and that has passed into the normal system of taxation of this country. Between the years 1880 and March 1916, there was no export duty with the exception of the export duty on rice. It was in the year 1916 that the export duty on jute was first levied at the instance of the then Finance Member, Sir William Meyer. In moving for the adoption of this new form of taxation Sir William Meyer pointed out that "jute is an article which can well bear a special rate of export duty, not only because of the present prosperity of the trade, but in view of the monopoly which India has in this product." He on that occasion dwelt on the special financial needs of the Government of India in view of the liability which had been thrown upon the Government of India by the War. On that occasion the rates of duty which were imposed were Rs. 2-4-0 per bale of raw jute, and 10 annas on cuttings, and for the manufactured product Rs. 16 per ton on Hessians and Rs. 10 per ton on Sacking. These rates continued till March 1917. In March 1917, while presenting the Budget of the financial year, Sir William Meyer proposed to double these rates of duty immediately, and the reason which he put forward was particularly that as India was called upon to pay a contribution of £100 million sterling on account of the War, the Government needed an additional taxation to be raised to the tune of £3 million sterling. He then referred to several items of taxation under which he proposed increases and then coming to the export duty on jute he said:

"Having regard to India's monopolist position in respect of jute production, which enables taxation to be normally passed on to the consumer, we propose to double the rates . . . and then to obtain an additional revenue of £500,000."

These enhanced rates have continued up to the present day, and the total revenue which the Government of India have derived from this source I calculate at 34½ crores, roughly, up to the year which is just closing. It appears that in 1916 Sir William Meyer did not justify this taxation merely on the hypothetical ground that jute was a monopoly commodity of India, but took care to point out the other fact that the trade was in a very flourishing condition. He was not quite sure of his ground. Later, he emphasized the fact that jute was the monopoly of India and on that he based the justification of doubling the rates in 1917. As to whether jute is a monopoly commodity of India is a question that first came up for examination by the Fiscal Commission in the first instance, and later before the Taxation Enquiry Committee. The Fiscal Commission discussed this question rather casually but the observations which they made with reference to export duties generally would bear repetition on this occasion. This is what they said at page 100 of their Report:

"Only in the case of an absolute monopoly for which the demand is stable can it be asserted generally that the world price will be raised by the full amount of the export duty, and that therefore the whole export duty will be paid by the foreign



consumer and none of it by the home producer. An absolute monopoly, however, for which there is a stable demand is of rare occurrence, and it may, therefore, be taken as the general rule that some portion, if not the whole, of an export duty falls on the home producer."

Sir, later, the Taxation Enquiry Committee in paragraph 156 of their Report examined the position and they pointed out "that the monopoly which at present exists would be infringed if an equally cheap substitute for jute could be discovered, or by an extension of the system of bulk-handling of grain."

Later on they went on to observe :

"In spite of the monopolistic character of the product, there exists a possibility that, in certain conditions of the trade, a portion of the export duty may fall on the producer."

Sir, my complaint is that this very important question has not come up for serious consideration at the hands either of the Fiscal Commission or the Taxation Enquiry Committee. But from the observations which were just quoted, from the reports of both these Committees, it appears that they are themselves in doubt as to whether it can be laid down as a general proposition that the export duty on jute is never paid out of the pockets of the consumers. They say that circumstances are conceivable when this duty, instead of being passed on to the consumer may well be borne by the producer. Sir, what is the position as we find it to-day? As is well known, jute is practically the monopoly of Bengal, so far as production is concerned, and I claim some authority to speak on this subject because it is my part of Bengal that produces a very large proportion of the jute grown in this country. The position as we find to-day is that Government have been making a systematic gain to the extent of Rs.  $3\frac{1}{2}$  crores and over every year for some years past. But this does not reflect the condition of the producer at all, for I find that in the jute season which has just closed—and we can find parallels of such seasons even in the past—the cultivator has in many instances not been able to recover even the bare cost of production of jute. There may be instances in which he has made just a slight profit, but in very many cases it can be asserted without fear of contradiction, that the jute producer has failed to recover even the cost of his production. The middleman, the baler, the manufacturer (the foreign manufacturer, as well as the Indian manufacturer), count upon some profit; the Government of India count upon a revenue of  $3\frac{1}{2}$  crores. But the producer has not been able in very many cases to recover the cost of production even. I should therefore think that there is something very wrong in the whole system that obtains in regard to this jute export duty. Sir, the Taxation Inquiry Committee referred specifically to the question of the bulk-handling of grains. I understand that in America particularly bulk-handling is gaining ground very considerably. And even in India I am told that grain lifters have been installed as an experiment in certain places. The time may therefore arrive very soon when the Government of India will have seriously to consider whether it will be politic on their part to continue this export duty at its present high rates. In any case I am sure that it is a misnomer to call jute the monopoly of India. It is a monopoly of India in so far as jute is not grown anywhere outside India; but, Sir, what about the implications of the description that jute is the monopoly of India? One would think that the producer is in a position to dictate prices, or that the producer would at least be entitled to recover his cost; but, as I have already stated, under this system of so-called monopoly

the producer is at the mercy of the purchaser. It is a powerful ring that controls the prices in the jute market, and when we find the purchaser to be in the position of a dictator, it is certainly a misnomer to describe jute as the monopoly of India, having regard to the undoubted implications of that description. Sir, while on this point I cannot refrain from observing that this duty is a huge contribution that the Government of India are levying upon the people of Bengal. That itself was a point to which reference was made by the Taxation Inquiry Committee. They say that a considerable increase in the rate of duty involves the likelihood of differential taxation on the people of Bengal. Though no such increase is proposed, the circumstances I have pointed out do make out a case for inquiry as to whether at least a portion of the present export duty, if not the whole, is borne by the producer of that commodity in Bengal. If it is, then certainly I can claim that it is a special item of taxation which the Government of India have been levying upon the people of Bengal. In this connection I would remind this House that while some persons talk of the Province of Bengal as a sort of charity province because of the fact that her annual contribution of Rs. 63 lakhs has been remitted, the fact is that the total amount which the Government of Bengal would be getting under this dispensation for six years would not exceed the amount the Government of India are making out of an agricultural produce of Bengal under this one head every year. Sir, I would further remind the Government of India that, while they have been making this huge profit out of a commodity produced by Bengal, the duty of seeing to the improvement of cultivation of jute, the duty of seeing to the improvement of the moral and material condition of the jute producer in Bengal is entirely laid on the shoulders of the Government of Bengal. If we had the advantage of the opinion of Mr. Jayakar's lady friend on this case, I am sure she would have as illuminative a criticism to offer as on the system of Dyarchy. Sir, this certainly is not the sort of division of functions that one can approve of. Here you are making  $3\frac{3}{4}$  crores every year out of the jute duty and leaving the Government of Bengal to see to the improvement of the cultivation of jute on which alone this huge profit of yours ultimately depends. I therefore appeal to the Honourable the Finance Member for his consideration as to whether in such a circumstance there ought not to be established some sort of a community of interest between the Provincial Government and the Central Government which might act as an encouragement to the Provincial Government to see to the improvement of jute production, giving the Provincial Government a substantial share in the proceeds of this taxation. Sir, in this connection I am reminded of the recommendation made by the Taxation Inquiry Committee that this position might in certain circumstances be enquired into by the Tariff Board. I may add that my principal intention in bringing forward this motion to-day is to draw the attention of the Honourable the Finance Member to the recommendation made by the Taxation Inquiry Committee. I maintain that the circumstances of the jute trade at present obtaining in Bengal do warrant an early inquiry by the Tariff Board into the whole question.

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## HIGHER SALT DUTY AND REMISSION OF PROVINCIAL CONTRIBUTIONS.

(Legislative Assembly debate : 28th Mar. 1927.)

I will at once come to Sir Basil Blackett's threat to Bengal that if we were to pass the reduced\* rate, Bengal's contribution would have to be revived with effect from the next year. I never thought Sir Basil Blackett was suffering from so short a memory. I want to remind him of the circumstances in which the remission of Bengal's contribution was effected. It was effected in pursuance of the Resolution brought forward by the Government in the autumn of 1921, in pursuance of the very definite recommendation made by the Joint Parliamentary Committee to the Government of India. That was a year in which the Government of India itself was faced with a very heavy deficit, and yet my Honourable friend's predecessor did not hesitate to bring forward a proposal for relieving Bengal altogether of the contribution of 63 lakhs a year. It is a pity, Sir, that the remission was not made permanent on that occasion. Perhaps it was due to the fact that the Government of India's finances were in such an unsatisfactory position at that time that any remission for more than three years was rather beyond the range of practical politics in the year 1921. Again, when it fell to the lot of my Honourable friend the Finance Member to bring forward another proposal to continue that remission, he pointed out in very clear terms the difference between the conditions of the other provinces and of Bengal. I have no intention of giving any long extracts on this occasion from the speeches of the Honourable Member, but I am sure he will not deny that he stated that Bengal's case stood on quite a different footing from that of the other provinces, and that the main justification for the remission of Bengal's contribution was to be found in that recommendation of the Joint Parliamentary Committee. And now, after the Government of India have produced several balanced and surplus Budgets in succession, he comes along and gives this threat to Bengal, that "unless you support this enhanced taxation, we are going to take off the remission." (*The Honourable Sir Basil Blackett*: "There is no question of enhanced taxation.") Well, "enhanced" in so far as we are concerned. I do not suppose my Honourable friend would dispute that proposition. So far as this House is concerned, it has taken its decision, its deliberate decision, and to agree to the higher rate now will be enhanced taxation so far as we are concerned. Sir, it is not fair, therefore, I say for the Honourable Member to come forward with that threat. I do not know whether I need read out to him once again the recommendation of the Joint Parliamentary Committee. Sir, if I had no necessity for doing it for his benefit, I would have had to do it for the benefit of my Honourable friend, Dr. Macphail, whom I am sorry not to find in his seat just now. Sir, I would not have taken up the task of instructing a veteran teacher like the reverend Doctor, but, Sir, when he says that Bengal must not be allowed to be a charity province, when he says that Bengal must revise her perma-

\* The Assembly passed a resolution in favour of reduction of the salt duty from Re. 1-4 to ten annas a maund.

nent settlement, I am very much afraid that he has got to take his instruction even from a man like myself. Sir, the Joint Parliamentary Committee made the following observations in their Report. They said :

"They desire to add their recognition of the peculiar financial difficulties of the Presidency of Bengal, which they accordingly commend to the special consideration of the Government of India."

Sir, upon that the Honourable Sir Malcolm Hailey said in 1921 :

"Bengal has behind it in making a claim for assistance an argument which no other province can put forward, namely, the specific recommendation of the Joint Parliamentary Committee, Bengal now demands that we should implement that recommendation. Nor is it for this Government, nor indeed, Sir, for this House, which owes its statutory existence to that Committee, to disregard this claim."

(The Honourable Sir Basil Blackett : "Hear, hear"). Then, again, I will refer to another point. I am rather anxious about the soul of the Honourable the Finance Member, which as my Honourable friend, Mr. Yakub, remarked, has got to be saved even at the expense of half a pound of flesh. Sir, I am rather anxious about my Honourable friend the Finance Member's soul because I find him deliberately going back upon the position taken up by the Government of India in the past with regard to Bengal. About two years back I brought forward a motion in the course of which I drew the attention of the Government to the defective working of Devolution Rule 15 under which, as is admitted even by the Honourable the Finance Member, it was expected that the Governments of Bombay and Bengal would get some share of the income-tax revenue. On that occasion the Honourable the Finance Member admitted that the Devolution Rule had failed of its purpose, that the Devolution Rule 15, which was intended for the benefit of the two industrial Provinces, was not benefiting them at all, and that contrary to all expectations, it was yielding some more benefit to the other provinces which had already gained under the new financial arrangements. Sir, on that occasion, my Honourable friend gave this House an assurance that he would go into this question and find some solution that will be satisfactory to these two provinces.

**The Honourable Sir Basil Blackett :** I am prepared to look into the matter as soon as the provincial contributions have gone.

**Mr. K. C. Neogy :** I am very glad that my Honourable friend gives me that assurance. But what do we find in his budget speech of this year? So far as the case of Bombay is concerned, he said that apart from her remission of provincial contribution, under the general scheme of reduction as laid down in the Devolution Rules, Bombay had a special claim on the assistance of the Government of India, because Devolution Rule 15 had not been working in the manner expected. But in the case of Bengal the Honourable Member observes, she has already had her relief. Bengal got the remission of her contribution from the year 1922, and certainly the defective working of Devolution Rule 15 had not been brought to the attention of the Finance Member in that year. When I moved that motion in 1925, the Finance Member had the candour to admit that that was the first time when his attention was drawn to the defective working of the rule. And now the Finance Member comes forward and says that Bengal has had her remission already and cannot look forward to any assistance on account of the defective working of the Devolution Rule. I am surprised that my friend can take up such an attitude. Then again we come to the case of the abolition of the stamp duty on cheques ; there again he said that only two provinces were going to be materially affected,

Bengal and Bombay ; but Bengal had no claim to be compensated for loss of revenue. I must ask my Honourable friend once again why was it, and on what considerations was it that the remission of Bengal's contribution was decided upon in 1921 ; was it on account of the defective working of Devolution Rule 15 ? Could any one anticipate the defective working of that Devolution Rule when we were just beginning to work the new constitution ? And now the Honourable the Finance Member says that Bengal has no claim to compensation. Sir, we expect a better standard of justice and fairness even from Finance Members.

**The Honourable Sir Basil Blackett :** If the Honourable Member will vote for the increased tax he will get all he wants.

**Mr. K. C. Neogy :** What I intend to point out is that Bengal's claim for remission of contribution, her claim for a share of the income-tax revenue, her claim for a share of the customs duty on jute, stands on a higher footing, and you have got to do something for Bengal in these directions, whether your salt duty remain at 10 annas or Rs. 1-4.

**The Honourable Sir Basil Blackett :** All that has been said has to be reconsidered in the light of the position created by the Assembly.

**Mr. K. C. Neogy :** Subject to the recommendation of the Joint Parliamentary Committee quoted by me. I do not suppose my Honourable friend has the authority to go behind that recommendation.

Sir George Paddison was talking of new schools, new roads, new hospitals, new wells, which the Ministry in Madras propose to bring about if this remission is made. Then again I heard the Punjab official representative talking of development schemes in different directions. Does my Honourable friend care to know what the present financial position of Bengal is ? In spite of this remission of 63 lakhs, Bengal is unable to balance her budget.

**The Honourable Sir Basil Blackett :** Is that not all the more reason for not obstructing the remission of her contribution next year ?

**Mr. K. C. Neogy :** It is all the more reason for considering Bengal's case quite apart from the reduction of the salt duty.

**The Honourable Sir Basil Blackett :** The Honourable Member has to take the finance of the Government of India into consideration.

**Mr. K. C. Neogy :** Certainly. Under the new federal system of finance, separation of the financial burden as between the provinces and the Central Exchequer has been brought about in a complete and rigid manner unexampled in the history of federal finance.

**The Honourable Sir Basil Blackett :** Why do not the Honourable Members help me to get rid of that situation ?

**Mr. K. C. Neogy :** Exactly, that is what I want. What I intended to say was that prior to the introduction of the new constitution the Government of India was solely responsible for the financial welfare of the provinces and the Provincial Governments were no better and no more than the Government of India working in the Provinces, and it is not proper on the part of the Honourable the Finance Member now to deny all at once his responsibility for the financial position of the Provinces.

**The Honourable Sir Basil Blackett :** I have asserted my responsibility and asked the House to recollect it in voting on this motion.



**Mr. K. C. Neogy :** I do hope the Honourable Member will remember the case of Bengal, which, as I say, stands on a different footing. I was going to say, when I was interrupted by my Honourable friend, that the financial position of Bengal as it appears to-day shows that her normal expenditure exceeds her normal income by no less than 64½ lakhs even in spite of the fact that she has not got to pay a contribution of 63 lakhs a year. I do hope my Honourable friend will condescend to look into these figures, although Bengal is not represented by those stalwarts who represent Bombay's interests in this House. Sir, we find too much of special pleading for Bombay in the Honourable Member's budget speech. I think, Sir, at that time, on the 28th February, when he made that speech, he had some hope that that would enable him to catch some votes on the ratio question ; but now that the ratio is out of the way altogether, would he kindly condescend to bestow a little more attention on the financial position of Bengal?

**The Honourable Sir Basil Blackett :** I do not wish to be continually interrupting the Honourable Member but I would like to understand what he means. How on earth is the Government of India to consider the financial position of Bengal or any other province if its revenue is taken away by the Central Legislature?

**Mr. K. C. Neogy :** Certainly you can, by making certain other readjustments, by reconsidering your policy about the sinking fund, your policy about the redemption of debt. Sir it is not the occasion just now to go into any details about that ; but if my Honourable friend is really anxious to know a little more about these things, he might sit round a table along with some of us, and we shall be quite happy to assist him with what little advice we can offer. But, Sir, I had no intention of making such a long speech, and I will just conclude by saying that in spite of the threat of the Honourable the Finance Member, I do support the reduction that we made on the last occasion.

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