India Bill, that the "reserved" subjects "will have to be controlled with a very strong constitutional strain influencing them." Since the people's chosen representatives are to predominate in the legislative councils, only such policies as find legislative support should be put into effect. As the interests of the people become the interests of the Government, friction will be lessened, harmony promoted, and progress ensured.

Considering the subjects to be dealt with, more Ministers will be required than the four apparently contemplated. Canada, with a population of only 8,000,000 persons, has eighteen Ministers. Some of the Indian provinces have a population exceeding 40,000,000 persons, so there is nothing unreasonable in asking for at least twelve Executive Councillors and Ministers for the larger provinces.

As suggested by the Joint Select Committee, the salaries of Ministers should be voted by the respective Legislative Councils. The salaries of members of the Council, which at present range from Rs. 56,000 to

Rs. 64,000, are excessive. Ministers should not be paid more than Rs. 36,000 per annum, though they may be given suitable travelling and entertainment allowances. In Canada, Ministers receive only about Rs. 21,000, while in Japan they receive but Rs. 14,400.

There might be two grades of Ministers, one within and the other outside the Cabinet. Unless a responsible Minister of a province has sufficient time to study the larger questions—which will only be possible if there is a sufficient number of Ministers—the scope for progress and development will be very limited, and suggestions from members of the Legislative Council may be inadequately met, or even resented.

All official proceedings should be regulated by precise rules and Acts, and should not depend merely upon the personal views and wishes of the officials. The whole system of official secrecy should be abolished.

Since, in future, the finances of provincial administrations will be separated from those of the Government of India, all

payments, except the pensions of residents in the United Kingdom, should be made locally or through local agencies. The purchases for railways and Government institutions should also be made through local agencies, instead of through official channels, as at present.

Unless the re-constituted Government in each province is to adopt an entirely new policy, the reforms will prove barren of results. Under the old regime, the maintenance of order was the chief concern of the administration. Henceforward progress must be the watchword.

In preparing a programme of provincial reconstruction, one is faced with the initial difficulties presented by lack of homogeneity within the provinces, and by provincial variations. No attempt has been made to ensure that the provinces shall be approximately of the same area and population, nor even that each province will form a racial and linguistic unit. The following table shows at a glance some of these provincial variations :—

	Sq. miles.	Population.
Assam	53,015	6,713,635
Bengal	78,699	45,483,077
Bihar and Orissa	83,181	34,490,084
Bombay	123,059	19,672,642
Central Provinces	99,823	13,916,308
Madras	142,330	41,405,404
Punjab	99,779	19,974,956
United Provinces	107,267	47,182,044

The new Government of India Act makes specific provision for the constitution of new provinces or sub-provinces. The Joint Select Committee did not think that any changes in the boundaries of a province should be made without due consideration of the views of the Legislative Council of that province. They were, however, of opinion that if the majority of the members of a Legislative Council representing a distinctive racial or linguistic territorial unit were to request that a separate province or sub-province be constituted, the Secretary of State should appoint a commission of inquiry, even though the majority of the Legislative Council of the province in question may be opposed to such a scheme.

The provinces should be reconstituted so that none of them may have a population of less than 10,000,000, nor more than 25,000,000 persons. A smaller unit is likely to be so weak as to find it difficult to resist the pressure of the Central Government, nor will it be able to command the resources to provide on a sufficiently large scale institutions and associations such as Universities, and departments of industry, commerce, agriculture and co-operative societies, necessary for rapid development.

In the forefront of the reconstruction problems should be put the expansion of the urban populations, the extension and improvement of educational facilities and economic development. The problems are interrelated and interdependent. More urban population is essential for carrying on the work of civilization. Without increasing the urban population it will be impossible to relieve the soil of the pressure under which it is groaning or to have economic development on a large scale. Similarly, any real advance in social and

material progress is impossible without more and better education.

The following figures show how small indeed is the urban population in India as compared with other countries :—

	Per cent.
England	75
Canada	48
United States	55
Japan	49
India	10

Without considerable increase of urban population in the immediate future, it will be impossible for India to expand her industries, trade and commerce on a scale that will enable her to hold her own in the world. The economic interests will not be sufficiently safeguarded until the urban population is at least doubled.

It is to be hoped that the elected Council in each province will be able to induce Government to provide sufficient funds and establishments to stimulate enterprise in these directions. It is, indeed, imperative that money be found for this purpose,

no matter what sacrifices may be involved. As large a proportion as possible of current provincial revenues should be set apart, and for any balance that may be needed, loans, earmarked for educational and industrial development, should be raised in each province. This proposal is further elaborated in the chapter on "Finance."

The Joint Select Committee suggested the creation of a Local Government Board for each province with a view to developing local self-government in cities, towns and rural areas. The new department, when constituted, should study the local government schemes of the Dominions and Japan before preparing its own plans. The new Municipal Act of Ontario (Canada) especially deserves careful consideration.

The time is ripe for the grant of complete self-government to local bodies, with powers of borrowing for local productive undertakings. No doubt, at the outset, some local bodies may misuse their powers or make mistakes. Wisdom in such matters can, however, only be acquired in the hard school of experience. Fortunately,

each governing body will be self-contained and, therefore, the evil effects of any mistakes that may be made need not extend beyond the area directly concerned. Practice in local self-government should enable the people better to grasp the constructive issues involved in the more responsible spheres of provincial and national government.

Every means should be employed to increase the resources of the districts and sub-districts. Local corporations should undertake the construction of small tanks, canals, communications, including railways, and other works of public utility, the public interests being safeguarded, where necessary, by Provincial Acts and Charters. The formation of these corporations would provide practical work for the population, and would confer the greatest benefit on a district, especially if the capital was raised, and all the directors, experts and artisans were recruited, locally.

At the beginning it may be necessary to obtain experts from outside, but if the control and direction be in the hands of

the district authorities, the work would constitute a source of practical education to the people, who have hitherto lacked such opportunities for training. Enterprises of this description, besides increasing production, will stimulate local patriotism and self-help.

The development of productive works and public utilities will immediately provide the Indian Ministers with great scope for remunerative enterprise. An irrigation scheme, for instance, which may cost, say, a crore of rupees, may, under favourable conditions, add the gross value of a crore to the annual productive yield, in addition to returning interest on the capital expended.

Although electricity comes under the head of "reserved subjects" there is no reason why hydro-electric works should not be developed by Indian agency with expert advisers. This has been done very successfully in Mysore.

The larger public works should be under national ownership, and their construction should be undertaken by indigenous

agencies, while their subsequent management should be under public control.

The Joint Select Committee suggested that standing committees of the Legislative Council be appointed in each province and attached to the more important Government departments. Presumably this plan will be adopted when the new constitution becomes fully operative. In addition, independent commissions will be needed to help to solve some of the larger problems of provincial administration.

If we are to make substantial progress, no time should be lost in preparing for the task that lies before us. Civics and elementary economics should form subjects for instruction in schools of all grades. Every city, town and village should have some sort of public association to spread knowledge of the various systems of responsible government practised by the self-governing Dominions and other constitutionally governed countries.

It will conduce greatly to the success of the effort to provide adequate training in industry, trade and education, if the pro-

vincial Governments arrange to send deputations of local merchants, business men and educationists to countries like Canada, Japan and Australia, to learn the technical processes and methods of development employed there.

An annual review of the work done to develop the capacity of the people and the country's resources should be discussed in every Legislative Council, and issued with Government authority. The various public bodies should also issue reports of their own activities so that the views of all parties engaged in speeding up the progress of the provinces may be available.

Committees composed of officials and non-officials should be constituted in the districts, and even in the sub-districts, for the discussion of public questions. Even though these bodies will be of a purely advisory character, they will help to bring the executive into close touch with the people—a close touch which at present is entirely lacking. Through such intercourse the officials will lose their attitude of isolation and domination, and the people

that awe of authority which is peculiar to India and stands in the way of co-operation and progress.

An Indian who has travelled in foreign countries is struck with the difference between the official attitude towards the people in those lands and in India. Whereas in other countries officials regard themselves as public servants and make it easy for the public to approach them, in India far too many officials look upon themselves as rulers, and make approach difficult. This criticism, it is to be feared, applies with almost as much force to Indian as to British officials.

An Indian who has travelled abroad is also likely to be struck with the contrast offered by the dispatch with which official work is performed in other countries as compared with the practice in India. Letters which, in other lands, would be answered the day they are received, in India remain unanswered in an office for days and even for weeks. Matters which would be decided finally in the course of a few days in any progressive country

are hung up in India for weeks and even for months. Legal delays are especially vexatious.

Much could be accomplished by simplifying the administrative routine. Much also could be accomplished by regulating the hours of work and the holidays. At present the officials do not begin work until 11 a.m., and that in a hot country where the early morning is the best time for work. They also stop work much earlier than do people in other countries. As to public holidays, no country comes anywhere near the Indian prodigality in that respect. In all these matters, the standards should be made to approximate to those prevailing in progressive countries.

While no effort is neglected to make institutions fit in with local exigencies, the provinces, as far as possible, should be developed on a uniform basis. Indian national solidarity is the object to be aimed at. Any accentuation of provincial differences will cut at the root of nationhood.

CHAPTER V

LOCAL SELF-GOVERNMENT

"LOCAL self-government has been described by a political philosopher as that 'system of government under which the greatest number of minds, knowing the most, and having the fullest opportunities of knowing it, about the special matter in hand, and having the greatest interest in its well-working, have the management of it, or control over it.' Centralization has been described as that 'system of government under which the smallest number of minds, or those knowing the least, and having the fewest opportunities of knowing it, about the special matter in hand, and having the smallest interest in its well-working, have the management of it, or

control over it.' An immense amount of wretched misgovernment might have been avoided, according to John Fiske, if all Legislators and all voters had those two wholesome maxims engraven upon their minds."

These words, quoted from an article by Mr. Henry Wade Rogers in the *North American Review*, 1908, indicate the value attached to local self-government by many leading Western minds.

"The writers on political institutions," he says further, "have . . . taught us that under local self-government officials exist for the benefit of the people, and that under centralization the people exist for the benefit of the official; that local self-government provides for the political education of the people, and centralization, based upon the principle that everything is to be done for the people rather than by the people, creates a spirit of dependence which dwarfs the intellectual and moral faculties and incapacitates for citizenship; . . . that the basis of local self-government is confidence in the people, while the

fundamental idea of centralization is distrust of the people."

Whilst not necessarily accepting these words without qualification, it is well worth while for every Indian to weigh and consider them carefully in the light of his own country's situation.

Most cities and many of the smaller towns of British India at present possess a limited measure of self-government; but, as stated in the Montagu-Chelmsford Report, the local bodies have had little freedom in the higher spheres of administration and finance. No attempt has been made to introduce an efficient system of self-government in local areas either on the British or other foreign model, or to increase the urban population.

The smallness of expenditure by municipal and district boards is another evidence of the low level of their activities. In 1917–18, the municipal boards in all cities and towns spent less than £8,500,000, and the expenditure of rural boards, charged with the duty of meeting the rural needs of a population exceeding

220,000,000 persons, amounted to only about £7,600,000.

In rural areas special taxes for local purposes are levied on minor industries, vehicles, animals, etc., besides a sur-tax on land revenue. In most parts of the country the proceeds are mainly spent upon district roads, ferries, medical institutions and the like, and the establishments maintained for the purpose. Little or nothing is allocated to meet the local needs of the villages which actually pay the taxes.

One of the most important duties which the reconstituted Government in each province will be called upon to perform will be to survey the field of local activities, study foreign experience, and pass a liberal measure of self-government suited to the peculiar conditions of the province. A Local Government Board will, no doubt, be created in each province under the new measure. The future progress of the country will depend upon the manner in which the new administration discharges this responsibility, for only by a thorough-going process of district life can scope be

provided for popular initiative and the work of development accelerated. Active participation in local affairs will also train the people to administer their provincial and national affairs.

In view of the fact that nine-tenths of the people in India live in villages, it is necessary that the new scheme of local self-government should not be confined to districts and sub-districts, but should extend to the remotest hamlets, to discipline and stimulate rural life all over the country. A system of village government is urgently needed to provide roads, water supply, irrigation, drainage, etc., and to introduce sanitary regulation and order in the villages.

Many of the villages consist almost entirely of mud-built and thatched houses, and are so badly kept that they are little better than slums. The residents of villages lack social and political power, and have no effective means of civic union with their fellows to enable them to improve their condition by joint effort. Unless a proper system of village administration is intro-

duced, local self-government will have no meaning to the vast rural population.

The authors of the Montagu-Chelmsford Report seemed to favour the revival of the *panchayets*, which, owing to centralization of administration, have decayed. They were, however, not quite sure that a satisfactory scheme can be created "out of the present uneven materials." They have, therefore, left the question of village government to be dealt with by the reconstituted provincial governments.

What should be the unit of rural self-government? "The Village" will be the answer which will most readily suggest itself. It has, however, to be recognized that many villages in India contain a population of less than 500 persons and, therefore, an individual village by itself is incapable of providing for local needs according to anything like civilized standards.

If, however, the individual village is too small a unit, the sub-district (*taluk*) into which villages are grouped for administrative purposes, is much too large for the

cultivator to take an intelligent personal interest in local affairs. It is, therefore, necessary to find an intermediate unit, which, while large enough to possess resources adequate to provide for local needs, will not be so large as to obscure that personal, intimate interest, without which local administration can never be a success.

Japan, faced with a similar problem, has solved it by grouping some 72,000 small villages for purposes of local administration into about 12,000 unions. By this method, the remotest village has been enabled to attain to a standard of local education, production, sanitation and communications, which would have been beyond its capacity had it sought independently to meet such requirements.

Each union contains, as a rule, from 3,000 to 4,000 persons. Now and again, however, a group has a combined population as small as 1,000, or as large as 30,000 persons.

One of the model unions which the writer visited during his recent tour in Japan,

consisted of five hamlets or villages. It was about twenty-four square miles in area, and had a population of 5,493 persons. It comprised ten divisions, and had fifty sub-divisions or groups of dwellings. The union, as a whole, had a headman or Soncho. Each division and sub-division had, in addition, its own headman.

The Soncho was elected by the people of the union subject to confirmation by the Governor of the prefecture (a section of the country corresponding to the Indian district). He was assisted in his duties by a council, composed of the divisional and sub-divisional headmen, elected by the people, and the officials. The people were usually guided by the decisions and advice of the council, special committees being appointed to settle disputes.

In many villages, separate councils are not appointed, but the Soncho, or elected headman, administers the affairs of the village with the aid of the village officials during the intervals between which the village assembly meets. The village assembly passes the budget and records

its decisions, which are afterwards amplified and given effect to by the village council, when there is one, or by the village headman and his staff.

That council constituted a working committee of the union assembly, and formed a channel of communication between the union and the executive officer of the sub-district, who was in constant touch with the head of the prefecture. The latter, in turn, was in communication with the Central Government. The Government was thus able to understand the needs and answer the call of the remotest hamlet in the empire.

The village union is a political entity. Neither the Central Government nor the prefecture (district) authorities interfere with the work of the unions, but on the contrary, make generous contributions towards the development of their industrial and social life and send experts to advise them. At the time of the writer's last visit to Japan, seventy-five village unions were in receipt of special subsidies for exemplary work in local government.

The system of grouping villages for purposes of local administration which has been described, could be easily adapted to Indian conditions, without interfering with any of the existing arrangements for the collection of revenue or the maintenance of order in rural areas. A block of 250 villages included, say, in a sub-district, may be merged into forty or fifty unions, each union, or group, consisting of, on an average, five or six villages, and having the most central village as the head-quarters of the union. Even ten or twelve thinly populated hamlets might form one union, while a village with a population of 3,000 or more may stand by itself, and should be permitted to remain a unit of self-government.

All the villages comprised in a union would elect a council of seven to twelve members. The council should have two committees—one to attend to routine business, and the other to carry on work of development.

The union council may collect taxes and voluntary contributions of labour, and

utilize them for improving roads and cart-tracks, drainage, water supply, irrigation, planting trees, and provide for lighting or such other needs and conveniences as their joint resources can supply. The field for self-improvement in this way is limited only by the energy, intelligence and activity of the people and their capacity for co-operative effort.

The villages may at first be reluctant to pay taxes for local improvements, but when they come to realize that the money is spent locally for their own benefit, they will not grudge meeting the demand. This especially will be the case when they find that the expenditure of money on local improvements leads to greater production and to improved conditions of living.

The duties of the village council would be regulated by the Acts of the Provincial Legislative Council, but there would be numerous other activities and wants which would have to be provided for by unofficial organizations. Ordinarily, every union should have primary and vocational schools, a village hall or meeting-place, reading

rooms, libraries, agricultural and co-operative societies, a society for promoting rural public works, rural manufactures, study clubs, hotels and inns, young men's associations, and other social and civic organizations.

These or any other institutions that may be wanting should be gradually brought into existence through the co-operation of the village council and local unofficial organizations. The whole question of organization is dealt with in a later chapter.

Only by some such system of village government would it be possible to revive the instinct of self-help and self-improvement which has been lost through long disuse, and to place the Indian village on the road to health, comfort and prosperity.

According to the census of India, a city is a residential area containing a population of 20,000 persons or more. The larger and more prosperous the area, the greater will be its opportunities and activities and the resources at its disposal to provide for local needs according to modern requirements.

The administration of a city is entrusted to a municipal council, which will be subject to the provisions of the Local Self-Government Act, and to the general rules prescribed by the Local Government Board. That council should have (1) a managing committee, and (2) an improvement board. The executive committee should maintain roads, water supply, drainage, parks and other public utilities, while the improvement committee should prepare and execute plans for all new works and improvements. The latter committee should collect information as to how city work is carried on in progressive countries, and disseminate such information among the public to secure their interest and co-operation.

One important duty of the improvement committee would be to prepare schemes for town-planning, following, as far as possible, the English town-planning models, consistent with the limited resources of Indian cities. Residential and industrial suburbs should be laid out, with a view to providing suitable sites for houses and for the establishment of factories and workshops needed

to provide occupations to a city population.

Unofficial agencies will be required to attend to civic needs which may fall outside the purview of duties of the municipal council.

A city should have a municipal hall and offices, libraries and reading-rooms, a commercial and industrial museum, an inquiry office, and a sufficiency of hotels, restaurants and inns. As in Canada, some cities might assume entire control over technical and commercial education.

Industry, commerce and banking should be specially encouraged, so that the city may become the centre of production and distribution for the neighbourhood. The necessary organizations such as a chamber of commerce, manufacturers', agricultural and bankers' associations and trade guilds for improving the economic life of the people, will be also needed. City organization would not be complete without reform societies, civic clubs, child welfare, and other public service organizations.

In Britain and in the United States systematic civic surveys are made from

time to time to investigate the conditions of the city and to suggest suitable measures of amelioration. These surveys deal not only with material needs, but also take stock of "the common life and institutions, and the tone and spirit of the people." Every city in India should be subject to such a survey, which should include vital statistics, education, production, distribution of population according to occupations, trade, sanitation, public health, recreation and air spaces, housing, industrial conditions, charities, etc. Such surveys are best carried out by the citizens qualified for the work, aided by experts, and the results placed before the city authority and the residents of the city for discussion and action.

Places containing 5,000 to 20,000 persons are regarded by the census authorities in India as towns. The town occupies a position midway between the city and the village. Town administrative bodies and public organizations will, therefore, occupy a position midway between those of the village union and the city

The town council should have (1) a managing committee and (2) an improvement board with functions similar to those of the city committees already described. There is abundant work in every town for improvement boards. Sufficient provision is not made as yet in many towns for their elementary needs, according to modern standards, in respect of roads, water supply and drainage.

The local affairs of the district may in future be administered by district Assemblies and district Boards, the former consisting of representatives from the village unions and towns in the district. The district Assemblies should elect the members of the Board, one-third of the members being re-elected every year.

The Board will be the chief executive authority for all local works and affairs. Under the direction of the Board, or its committees, a secretary and executive staff will attend to the administration of local matters in the district, such as rural education, roads, cart-tracks, bridges,

water supply, drainage, veterinary work, sanitation, medical control, etc.

The Board and its staff will be maintained from the local funds of the district, contributed by the municipalities and village unions in the area, supplemented, where necessary, by special rates and contributions from the Provincial Government. The local taxes may be collected by the villages themselves, and a percentage of the proceeds, fixed by law, handed over for the expenses of the district Board. Special cesses may be levied for the purpose of constructing local works such as railways, tramways, road bridges, irrigation channels, and similar improvements, if the people of the locality who need them are willing to pay for them, the cesses being recovered from those who derive benefit from them.

One of the chief duties of the district Boards will be the development of local resources and communications. Works carried out for the purpose may, in addition to benefiting the people of the locality concerned, form a source of income to the district Board itself. There is abundant

scope for developments of this character.

The construction of local works should, as far as possible, be entrusted to the people of the district, and the contracts given to corporations and companies formed in the area, with a view to affording training in business management, finding occupation for the people, and developing their executive capacity.

The work of the district Board may be carried on by two committees: one to concern itself with administration, and the other with formulating and executing development and improvement programmes.

Ordinarily, the local work of the sub-district (*taluk*) may be carried out by officials appointed by the district Board. Separate sub-district Boards may, however, be established where the area or population is large. Such a Board will differ from the district Board only in degree and not in organization and duties. Where a sub-district is established, the district Board will be relieved of its responsibility for the work of the *taluk*, except in the matter of

co-ordinating that work with the rest of the district.

The district Assembly, already referred to, may meet once in three months to discuss the wants and needs of the district, to exchange views with the provincial officials and to pass the budgets of the district Board. The district Board will be responsible for giving effect to the decisions and resolutions passed by the Assembly in matters which pertain to the work of the Board.

The district Assembly should serve also as a consultative body to help the provincial Government to carry on the work of the district. It might appoint committees to advise the district officials, either in regard to general affairs, or for any special or individual developments that may be in progress between any two sessions of the Assembly.

For economic and other developments, committees of the district Assemblies may be constituted to advise officials of the departments concerned. The officials will also be present at the quarterly or other meetings of the district Assembly. Both

the district Board and the district officers should be required to assist private organizations, and citizens' societies started for the purpose of training the people for responsible government, inculcating the idea of good citizenship and promoting culture, patriotism, discipline and thrift. It is hoped that in future provincial ministers and district officers will send advice and exhortations to the people from time to time, through the district Assemblies, as to the manner in which they should conduct themselves and co-operate with the provincial authorities in the work of local improvement and development.

Leaders of public opinion should begin at once to make a careful study of foreign systems of self-government, and should start special journals to popularize models suited to Indian conditions and to educate the public. The people should abandon the idea once for all that development will come in the course of time without study, preparation, effort, or the expenditure of money, and should be prepared to pay taxes and to make sacrifices.

Future developments in this respect will depend largely upon the character of the new scheme of local self-government to be introduced by the reformed provincial Governments, and upon the constitution and duties of the new Local Government Board to be established in each province.

CHAPTER VI

FINANCE

MANY anomalies exist in the administration of India's finances.[1]

The annual budget is prepared both in pounds sterling and in rupees, although the latter is the standard unit of value in the country. A large sum, at present amounting to about £29,000,000, is annually budgeted for expenditure in the United Kingdom—mainly for military services, pensions and the purchase of stores.

Other countries, the Dominions not ex-

[1] The rates of exchange generally prevailing at the outbreak of the War have been adopted throughout the book. On this basis the rupee (16 annas) is fixed at 16*d.*, and 15 rupees go to £1 sterling.

A lakh of rupees (100,000) = £6,666 13*s.* 4*d.*; a crore of rupees (10 millions) = £666,666 13*s.* 4*d.*

The yen is about 2*s.* 0½*d.*, so that 2 yen roughly = 3 rupees. The American dollar is converted roughly at $4.85 to £1 sterling.

cepted, make payments through banks for expenditure incurred abroad. They purchase the necessary stores within the country itself through local firms.

Silver continues to be the internal currency of India—though many years ago an official committee recommended the establishment of a gold standard for India, and though gold is the standard accepted in all civilized countries. While the British sovereign is legal tender in India, there is no corresponding legal obligation in the United Kingdom to recognize the rupee, nor has there been any serious attempt to make the rupee convertible into gold in India at all times.

British trade with India is not left to follow its own course, but by means of council bills, telegraphic transfers and reverse drafts is financed through the Secretary of State. The gold exchange and paper currency reserves, running into something like £100,000,000, are held in London instead of being retained in India to promote Indian credit and to help Indian trade, and loans at low rates of

interest are made therefrom to British traders. It has been truly said that the Secretary of State is both the ruler and banker of India.

All departments of Indian finance are inter-penetrated by the influence of British trade. As Lord Bryce says :—

"The more any public authority or any National Government either itself undertakes or interferes with the conduct by private persons of any matter in which money can be either made or spent, the more grounds does it supply the private persons for trying to influence its action in the direction which will benefit such persons." [1]

If this occurs in a National Government the evil effects in a dependency will be far greater.

The financiers with whom the writer has discussed the question consider the system of finance followed in India as highly prejudicial to Indian interests. Under an effective international currency, that is, gold, all the Indian money would go back to India and be available for expansion of credit there, so as to benefit Indian

[1] *The Hindrances to Good Citizenship*, by Lord Bryce, p. 45.

trade and industry. The present conditions of exchange in Europe and America make it imperative for India to adopt an effective gold standard. In normal times, the balance of trade has in most years been in favour of India, so that an effective gold standard was always a practicable scheme.

During the War, on account of her dependent position, the monetary affairs of India were controlled from London. The people suffered from high prices. The war profits went to a very small percentage of business men. Many commodities were purchased very much below the world prices. Food control was exercised secretly, without the public being aware of the extent to which food was exported. Great mortality was caused through lack of proper sustenance during the influenza epidemic. The export of articles such as hides was controlled in order to secure them for Britain and her Allies below the market value. In order to maintain artificial conditions of exchange, ordinary trade in rice, jute, timber, wheat, hides and other articles was pro-

hibited on private account, and in some cases stopped. India lost heavily on her investments in England, and her own money in the currency reserves remained locked up in England. Large purchases of silver were made through commercial agencies instead of in India itself.

A self-governing Dominion would, while all the time loyally helping Great Britain, have greatly added to her own wealth. Canada, as one of her statesmen told the writer, in spite of the sacrifices she made for the War, is at present "rolling in wealth." Japan and the United States have immensely strengthened their economic and financial position. The United States is now leading the world both in trade and finance, and is the only free gold market of to-day. The War gave Japan the opportunity which foreign competition had withheld from her. Under capable Indian, or even pro-Indian, management, India's economic position could have been immensely strengthened, and what she lost within the last fifty years might have been restored to her during the five years of the War.

The large sums of money annually budgeted for military expenditure are difficult to justify, especially when it is remembered that India is a dependent and not an independent country.

In the budget for the year 1920–21, £41,000,000 has been set aside for purposes of defence. This amounts to nearly half the total net revenue of the country. Military expenditure on such a scale in peace time is without parallel in any country in the world. Britain spent much less on her army in pre-war times. Even the Japanese Empire spends only a fraction of this sum.

In view of the altered conditions, the whole military and naval expenditure and defence organization of the country must be placed on a new basis. This work should be entrusted to a commission comprising an adequate number of Indians, as soon as reasonably possible after the reformed government comes into being.

The report of the Esher Committee on Indian Army Reform just issued (October, 1920) reveals the dangers to which Indian

finance and the Indian constitution is exposed in the future. Even the London "Times" considers the report very extraordinary since in a sense the proposals amount to handing over the army in India, and half the Indian imperial expenditure, to the direct control of the British War Office. Under the scheme, all the Indians have to do is to find the money. One wonders what a Dominion government would say if such a proposal were placed before it.

Lord Macaulay stated in 1833 when the East India Company's Charter was renewed for the last time, that the Indian revenue was larger than that of any country in the world except France. That position no longer exists, though since then large and populous tracts of territory have been added to the Indian Empire.

While, during the twenty years ending 1913–14, the revenue in India increased by about 36 per cent., during the same period it expanded 115 per cent. in the United Kingdom, 245 per cent. in Canada, and 640 per cent. in Japan. These figures, sufficiently accurate to serve as a basis of comparison,

show that while those countries have been making rapid progress, India has practically stood still.

Canada, with a population of a little over 8,000,000 persons, yielded a revenue of more than £34,000,000 in 1916, or £45,000,000 including provincial revenue. With a population thirty times as large, British India yielded only double that amount. But whereas Canada has been free to develop her resources, India has been in leading strings.

Though the increase of revenue is small, the administration is costly, and its demands are constantly growing.

The sources from which the Government of India derives its revenue have certain distinctive features due to India's position as a dependency. In the United Kingdom, for instance, the principal sources of revenue are customs, excise, estate duties, property and income-tax, posts, telegraphs, etc. In the United States they are excise, licences and other internal revenues, customs, postal revenue, etc. In Canada they are customs, excise, public works, and income-

tax (during the War). In India, on the other hand, customs revenue and income-tax have been kept very low. The sheet-anchor of Indian finance, to use the phrase of a finance member of the Government of India, is land-tax, which is drawn from the poorest of the poor, and amounts to about £22,000,000.

Indian revenue can easily be doubled in ten years and trebled in fifteen if a satisfactory policy for the development of education and of production from industries and agriculture is adopted, and many of the restrictive influences incidental to the position of a dependency are removed.

Another unique point in respect of Indian finance is that the entire proceeds from all the provinces are swept into the central treasury, and sums doled out to the provinces, not according to the demands or needs of the population, but according to the wishes of the Central Government or of the India Office, because the Secretary of State in Council determines all the appropriations of the Government of India. The discussion of the Budget in provincial

Councils, or even in the Imperial Council, has, therefore, been futile, and no real opportunity has been afforded to initiate large economic or social experiments in any of the provinces.

Orders have now been issued to separate provincial from central finance. The manner in which effect is being given to the orders so far cannot, however, be regarded as satisfactory, since the complete separation of finance is not being insisted upon. Nor has any attempt been made to readjust, on an equitable basis, the contributions levied from the various provinces by the Government of India. Madras and the United Provinces, though both economically weak, are most unfairly treated, and this injustice is to continue.

The central revenues should be restricted to a few specific imposts such as customs, net income from railways and income-tax. As a cardinal principle of finance, the whole field of taxation, excepting those few taxes levied by the Central Government, should be in the hands of Provincial Governments.

The gross railway revenue and expendi-

ture as entered in the budget swells the figures in a misleading manner.

The railways should be carried on by the Government through indigenous agencies, to be trained at once for this purpose, and administered in the interests of the population, and not, as at present, merely in the interests of Government revenue.

The separation of provincial finance will ensure that money raised locally will be spent locally. That will inspire confidence in the tax-payer—confidence which will make it possible to collect more revenue in the provinces, as experience has proved in the United States and Canada.

Cities and towns should be permitted to contract loans, subject to recognized restrictions, for public utilities and productive works, if the interest charges and sinking-funds can be met from local taxes and rates.

If the system of grouping villages for purposes of local administration, recommended in the preceding chapter, is adopted it would be easy to develop a satisfactory scheme of rural finance. After meeting the urgent current expenditure on

sanitation, repair and maintenance of roads and lighting, the balance available should be devoted to :—

(1) Education.
(2) Local improvements ; and
(3) Measures necessary to train the people, and to improve the economic and social condition of the poorest among them.

The principle of making the locality raise half the money needed for education and other development purposes, and obtaining the other half by provincial grants, may answer well for most provinces for the present.

The division of revenue between the central, provincial and local authorities leaves much to be desired. In 1914, for instance, the imperial and provincial expenditure in India was £85,000,000 ; district and sub-district expenditure, £3,900,000 ; municipal, £5,400,000 ; making a total of £94,300,000. In Japan the corresponding figures were £59,000,000, £8,000,000, £21,000,000, and a total of £88,000,000 respectively. Whatever the discrepancy in the basis of comparison, the statistics are

accurate enough to show that the local expenditure in Japan is very much greater than it is in India, notwithstanding the fact that the rural population of India is much larger.

Calculations made upon the basis of rough estimates of gross annual income before the War, show that taxation in India bears a higher proportion to the income of the tax-payer than it does in most civilized countries. In the United Kingdom, for instance, the gross annual income before the War was estimated at about £2,300,000,000, and the national expenditure at about £200,000,000, or less than one-eleventh. For India the corresponding figures were £600,000,000 and £83,000,000, or a little over one-seventh.

According to the late Mr. Justice Ranade, who for a long time administered the Deccan Agriculturists Relief Act under the Bombay Government, the land-tax encroaches upon the profits and wages of the poor peasant, who has to accommodate himself to a low standard of life with every increase of economic pressure on his class. In the case

of smaller payments, the land-tax interferes with the means of subsistence, and in the case of larger ones it discourages agricultural development. From whatever point of view it is considered, the tax in its present form is harmful.

The taxable incomes in most countries are reckoned upon people's earnings after deducting whatever is needed for a fair subsistence allowance. The finances in civilized countries are tending towards complete exemption from taxation of all persons whose incomes fall below a certain minimum. If such a test were applied to the Indian cultivator, a great majority of his class would not be liable to pay any tax at all. But the land-tax can be adjusted only when a more equitable system of taxation has been made possible by economic developments.

As regards excise from alcoholic drinks, which is a considerable source of revenue at present in India, it is desirable to aim at its abolition as quickly as possible, because it is derived by encouraging vice among the people.

The United States has "gone dry," and

the Canadian Provinces are following the example. Scotland has lately begun voting upon local option. There is in England a strong movement in favour of this reform. Why should not India, where the higher classes are not addicted to drink, be permitted to ban liquor by means of a similar process, gradual enough to permit the necessary financial readjustment to take place ?

Since national exigencies demand the development of education and industries at an unprecedented rate, and since, for some years, it is not possible to provide, out of current revenue, the large sums needed for the purpose, it is necessary that a loan averaging about fifteen crores per annum be raised for these purposes during the next ten years.

A loan for education is unusual, but so are India's conditions. The Japanese Government has not hesitated recently to float a loan for education, though great educational progress has already been made, and though the Diet opposed the loan on the ground that education was not a

business transaction nor a productive public work. In India, the position is exactly the reverse. The people's representatives have been clamouring for more and better education, and the Government has been pleading financial inability, though that did not prevent it from incurring a substantial amount of unproductive war debt. An addition of at least an equal amount (133 crores) for education, industries, and other development purposes could hardly be regarded as piling up unproductive debt.

Each province may be permitted to raise money internally. If credit and confidence are established, there is no reason why these internal loan operations should not prove successful.

The public debt of India is made up as follows :—

	Crores of Rupees.
Ordinary war debt	133
Productive railways . . .	359
Irrigation	66
Total	558

To this will have to be added in future, as stated above, a yearly loan of fifteen crores for ten years to come. Such increase, in addition to any increase in taxation, will be cheerfully faced by the people, if they are sure that the proceeds will be applied strictly to the purposes mentioned.

As currency and banking will be dealt with in a later chapter, it is here necessary only to draw attention to the great importance of establishing a federal banking system with a central control, giving India an effective gold standard and separating Indian finance from British trade with India. Similarly, as the subject of fiscal autonomy will be treated later, it is merely necessary to state here that the true basis of Indian progress will be established if the India Office control of the Indian finances ceases, if payment of "home charges" is made through the London branch of the Indian Central Bank or banking system, and if India is permitted to redistribute the incidence of taxation and expand her finances as suits her best. Fiscal reconstruction should be the corner-stone of

the economic and social edifice of the future.

The entire subject of Indian finance needs to be impartially investigated, if for no other reason than to remove the suspicion entertained by well-informed unprejudiced persons who believe that financial anomalies have been permitted to grow up in order to preserve British monopoly over the Indian trade and hold Indian gold in London. A commission for that purpose should be appointed as early as possible. It should be composed of two-thirds Indian representatives, and the remaining one-third of experts and officials. The commission should be permitted to appoint its own staff and to carry on direct correspondence with the Dominions and foreign countries, and to submit recommendations. It seems desirable that such a commission should be appointed at once, and maintained for four or five years, until the finances are all brought into a condition, as near as circumstances allow, to that of Canada or Australia, because only by placing the Indian finances upon a Dominion

basis can the anomalies which exist be eliminated.

The currency policy should hereafter be settled by the Government of India with the approval of the Indian Legislature and Indian public opinion. There should be no delay, therefore, in the establishment of a commission for five years, and of a permanent financial committee of the Central Legislative Assembly and similar bodies in each province, as suggested. Experts and officials, though represented on these central and provincial legislative committees, should have no power to vote. It is to be hoped that, in future, there may be complete open dealing and publicity in regard to all money transactions.

Economic Reconstruction

CHAPTER VII

ECONOMIC ACTIVITIES IN ADVANCED COUNTRIES

Now that a measure of self-government has been vouchsafed to India, and the Joint Select Committee has clearly stated "that she should have the same liberty to consider her" fiscal "interests as Great Britain or any self-governing Dominion," it should be easy to reconstruct her trade and industry, and to develop her natural resources in a manner not hitherto possible.

The lines on which economic reconstruction should proceed will be better understood if a rapid survey is made of the methods pursued in the United Kingdom, Canada, the United States of America and Japan to increase production and to promote trade and industry.

Ever since the reorganization of the

national life for war purposes, there has been more vigorous thinking and more definite suggestions in regard to social experiment in Britain than, perhaps, in any other country. Not long after hostilities began, a committee on reconstruction was constituted. This was later converted into a department, which, if it did nothing else, issued a series of pamphlets containing much valuable information on various phases of reconstruction — information which needs to be carefully read in India, and adapted to Indian requirements.

Four broad economic tendencies are at present noticeable in Great Britain:

Firstly, the Government is taking direct action to secure maximum production in essential industries and to stimulate invention. The most important instances are the encouragement of agricultural production during the War, and the determined endeavour to occupy the first place in the matter of manufacturing dyes. With this is connected the realization, slower in England than in Germany and the United States of America, of the paramount value

of scientific research in industry—as, for example, in the setting aside of a sum of a million sterling by the Department of Scientific and Industrial Research for grants in aid.

Secondly, the Government has been forced by clamorous need to assist local authorities and private enterprise in so fundamental a service as housing. Years before the War, it was becoming clear that the re-housing of the greater part of the population, especially the agricultural labourers, was an urgent problem which could be solved only by a comprehensive national policy. Since the War all doubts, even of the most convinced advocates of the policy of *laissez-faire*, have been swept away, and the Government has undertaken the task.

Thirdly, despite disinclination on the part of the present Ministry, there is an increasing trend of public opinion towards the State control of the essential national services, especially mines and transport. Nothing, it is evident, can check the growth of the enormous combines which are the

distinctive economic characteristic of the age—in textiles, leather, oil, coal, steel and shipping.

As a result of the War, there have been many amalgamations of trade and business interests. At present five great combines do most of the banking in England.

Fourthly, the tendency towards the extension of public control and the workers' demand for an altered status is equally irresistible. No longer is it possible, with the transition from free competition to vast modern combines, for the community and the Government to be left out of the concern, while, on the other hand, the workers of every class and kind declare themselves emphatically against the continuance of a wage system divorced from responsibility in management. Four years ago, the first authoritative recognition of this development came with the report issued by the Whitley Committee, recommending joint industrial councils, upon which representatives of the workers and of the employers should sit together. Since the last year of the War, there has been a

remarkable expansion of the Industrial Council movement, which is universally regarded as a first stage in the transfer of control. Of greater importance still is the development in railways and mines which is destined to lead, in a brief period, to entirely new forms of ownership and control.

An Imperial Trade Investigation Board has been set up, and a private British Trade Corporation has been established under Royal Charter with the express object of financing and developing foreign trade.

When so industrially advanced a country as Britain finds it necessary to make breaches in her policy of free trade, how can the policy of *laissez-faire* be continued in India, which is still in the agricultural stage ?

Canada, like India, is essentially an agricultural country, but while the Dominion authorities realize the futility of depending merely upon agriculture, effort is made to keep India agricultural. The latest figures

for Canada [1] show that the total production from industries and manufactures exceeds that from agriculture. The volume of manufactured products, which are protected by a tariff duty averaging about 25 per cent., is constantly increasing. Banking is also advancing at a rapid rate, and a notable movement for international banking expansion has begun.

The Canadian Government has at the present time concentrated its attention upon increasing and extending foreign trade. The Department of Trade and Commerce, the most important national organization, and the Department of Finance and Banking are working assiduously to this end.

Attention is being given to the Commercial Intelligence Service, and large schemes have been projected for the encouragement of industries. All the public departments are energetic in preparing and circulating reports and bulletins. A weekly

[1] Current production, 1917 :—

	Dols.
Agriculture	1,621 millions.
Fishing	39 ,,
Forestry	175 ,,
Mining	190 ,,
Manufacturing	2,400 ,,

bulletin with a large free circulation is issued by the Federal Government. Indeed, the Canadian Governments have set a standard in the matter of promoting industrial education and providing assistance through public agency and propaganda. The importance of such help cannot be exaggerated.

The Dominion Government deals chiefly with the survey service and foreign trade, while the actual work of exploiting national resources and giving assistance to business concerns is left to the Provincial Governments. A single province has recently made appropriations of nearly $2,000,000 for the establishment of new industries, and is prepared to lend dollar for dollar when private individuals and corporations signify their desire to start them. In eastern Canada municipalities grant facilities to encourage small industries.

The Indian practice stands in direct contrast to the Canadian standards. The Central and Provincial Governments in India are extremely chary of subsidizing any industry. There was in recent years

at least one occasion on which orders went from London which in substance prohibited the active encouragement of industry.

In the United States of America, as in Canada, industries have been protected by a high tariff wall, though American industrialists, by their ability to combine, have been able to do without Government subsidies.

Americans have, of course, been greatly helped by the abundance of their resources, both in materials and in trained men. Industries have reached an adolescent stage, and many of them can safely dispense with protective duties.

Extensive use of labour-saving machinery and motive power and economic and efficient management of business distinguish American industry.

Huge industries and mammoth trusts have grown up.

For instance, the annual business of the Ford Motor Company at Detroit approximates $350,000,000. The average number of employees regularly on the pay roll is

about 36,000. The plant turns out a complete motor-car every twenty-nine seconds and, in conjunction with its branch factories, has a record of 3,000 cars made in a single day of eight hours.

The wealth of individual citizens has risen to prodigious proportions. Mr. John D. Rockefeller's fortune is estimated at three billion dollars and his income at one hundred million dollars a year.

The banking work of America is carried on by 8,000 or 9,000 principal banks, each of which is a member of the Federal Reserve Bank of the district in which it is situated. There are twelve Federal Reserve Banks, controlled by a Federal Reserve Board at Washington. The Board has recently agreed to establish branch banks abroad, and there is a move in New York and Washington at present to help the Central and South American States to place their currencies on a gold basis.

Another characteristic of American business organization is the Chambers of Commerce or Boards of Trade established throughout the country. The Central

Chamber of Commerce of the United States comprises the combined forces of America's leading commercial organizations. It represents the body of American business men at the seat of the Federal Government at Washington, where it maintains an executive Board. Manufacturers and business men serve on its committees. It has a staff of experienced experts, conducts bureaux of administration, organization service, research, industrial relations and service to members, and has at its command an editorial staff with a national vision, and a field force to reach its nation-wide membership.

The reconstruction aims of the American nation at present, briefly stated, are: (1) increased production in industries and agriculture; (2) extension of foreign trade, and (3) increase of American shipping.

Americans have realized that shipping and all the correlated improvements pertaining to a merchant marine are necessary to the expansion of the general trade of the country. They have realized that lack of shipping has handicapped their foreign

trade. Shipping is, therefore, receiving the largest amount of attention of both the Government and the people at the present time. In September, 1919, a prominent business man in New York, in course of conversation with the writer, remarked that the shipbuilding going on in the country over-shadowed every other activity. The coast is filled with shipbuilding yards. The biggest shipbuilding plant in the world is at Hog Island. Created as a war measure, it is now used for building merchant ships. Fifty ships can be built there at the same time.

Shipping is entirely under the control of the Shipping Board, which builds ships and sells them to private firms. America is convinced that where a great volume of tonnage is congregated, competition fixes the lowest rates.

Both Government and the people are doing their utmost to expand foreign trade. The Government is training at Washington a number of young men who, after passing an examination in exports and imports, are to be sent to European countries as