2

Colonial State and Central Budgetary Transfer: Bengal Provincial Finance, 1921–37

Provincial Finance under the Dyarchy

The constitutional framework that regulates the central budgetary transfer in the post-independence states of South Asia is, or rather initially was, largely a replica of the provisions laid out in the colonial statute of the Government of India Act of 1935. India made substantial reforms after independence, but Pakistan retains the basic features of the provisions as analyzed in Chapter 5 (refer also to Appendix 5-1 in the same chapter).

This second chapter of our study will narrate the historical accounts that eventually led to the working out of an elaborate institution of resource sharing between the center and the provinces in colonial India. Attention will be paid to the provincial finances of Bengal, the largest of the British India provinces, whose position was financially vulnerable and politically critical in the period immediately preceding the statutory reforms of 1935.

The purpose of this chapter is twofold. The first is to probe into the political and economic background of the decision by the sovereign and colonial power to part with some portion of its central resources in order that the provincial governments could regain financial solvency to some extent. This chapter would help us understand an aspect of what was implied by the "political economy approach" proposed in the earlier chapter. The second purpose is to provide an introductory chapter to those which follow by illustrating linkages between colonial and post-colonial issues concerning center-state/provincial finance.

With the inception of the Dyarchy in 1921, Indian provincial finance was ushered into a new stage. Provinces were assigned with separate sources of revenue, which differed from the previous arrangement by which they shared with the center certain items of revenue. Although the new system had its shortcomings, as was evinced afterwards, it was truly a first step in giving constitutional status to provincial finance in India.

The Government of India Act of 1919 provided the provinces with responsibility for provincial subjects, under which jurisdiction pertaining to certain departments, popularly referred to as "nation-building" departments, was transferred to the ministers responsible to the provincial legislative councils. More sensitive and important departments were retained by members of the executive councils, who were responsible to the governor. "Dyarchy" was a term coined to express this bifurcation of constitutional authority.

This reform, however, was introduced within an inherent constraint of having to keep sufficient resources for maintaining imperial defences intact and for making the enormous debts payments due to the Governments of India. Table 2-1, cited from the *Report of the Indian Statutory Commission,* popularly known as Simon Commission Report, gives a summary view of the relative shares in the annual budget occupied by the center and the provinces in a normal year before the Great Depression.

The division of resources derived from various items of revenue inherently discriminated against the provinces as the more elastic resources were reserved for the central government, while the more inelastic and less expansive resources were transferred to the provinces. In addition, during the initial stages of the new arrangement, the provinces had to make "provincial contributions" to the central government to fill the gap in the central deficit caused by the separation of the two coffers.

The share for divisible resources and the amount of the contribution assigned to each province were first proposed in the *Joint Report on Constitutional Reforms* and subsequently revised by the award established by Lord Meston, a financial settlement that came to bear his name. From that time on detrimental effects and shortcomings of financial reform became associated with the Meston Award as it came under severe criticism, especially from the more developed and industrialized provinces like Bengal and Bombay.

Although limited in its perspective, the new scheme of financial devolution in favor of the provincial governments was supposed to be one of the most important means to counter the growing demands for autonomy by the Indian people. Furthermore, the performance of the "transferred" departments, the so-called nation-building departments, was expected to be the key to the success of the new constitutional settlement. Moreover the demands for the better financial allocation to the provinces raised in diverse political quarters reflected the national sentiment insofar as these demands were accompanied by criticism of colonial policy for spending much more on defence, law and order, and debt charges than on socioeconomic improvement for the welfare of the common people.[1]

TABLE 2-1
CENTRAL AND PROVINCIAL BUDGETS, EXCLUDING BURMA, 1929–30

(Rs. million)

Central Revenue		Central Expenditure	
Customs	479.1	Defence (net)	521.0
Income tax	147.5	Debt (net)	101.9
Salt	60.0	Civil administration	102.0
Other taxes	10.9	Loss on post office etc.	3.9
Total taxes	697.5	Cost of collection	31.2
		Civil works	24.1
Railways	60.0	Pensions	24.8
Opium	23.5	Other expenditure	4.7
Currency and mint	23.5	Surplus resulting from separation of Burma	10.0
Tributes	7.4		
Other receipts	11.7		
Total	823.6	Total	823.6

Provincial Revenue		Provincial Expenditure	
Land revenue	299.4	Land revenue and general administration	140.8
Excise	181.3	Police	106.7
Stamps	136.4	Jails and justice	72.6
Registration	14.0	Debt	34.3
Scheduled taxes	3.9	Pensions	36.0
Total taxes	635.0	Education	113.0
Forests (net)	11.1	Medical relief and public health	57.3
Irrigation (net)	28.0	Agriculture and industries	32.4
Other sources	107.2	Civil works	93.8
		Other	83.2
Total	781.3	Total	770.1

Source: United Kingdom, *Report of the Indian Statutory Commission*, Vol. 2, *Recommendations*, Cmd. 3569 (1930) (hereafter cited as *RISC*), p.237.

The Vulnerability of Bengal Provincial Finance

At the same time, however, it cannot be denied that the performance of the provincial governments under the Dyarchy differed greatly due to various politico-economic reasons. Generally, such agricultural provinces as Punjab, Madras, and the United Provinces performed better than the others because of more comfortable finances.[2] Table 2-2, which shows the financial revenues and deficits during 1921/22–1936/37 in the provinces, clearly reveals the least enviable financial position of Bengal during the period of the Dyarchy. Bengal recorded the worst performance among all the provinces and the fall in revenue

TABLE 2-2

PROVINCIAL FINANCE, 1921/22–1936/37

(Rs. million)

	1921/22	1922/23	1923/24	1924/25	1925/26	1926/27	1927/28	1928/29
Revenue								
United Provinces	126.4	124.8	127.1	123.9	127.0	129.0	128.6	114.5
Central Provinces	—	—	53.9	53.2	55.7	57.5	56.4	55.4
Madras	157.7	160.3	163.9	162.6	169.3	168.4	170.5	175.3
Bengal	98.8	98.5	101.3	103.2	107.0	105.0	108.1	109.9
Assam	18.4	20.1	21.5	25.9	29.5	32.5	33.5	27.6
Bihar and Orissa	—	—	—	53.1	56.8	56.3	56.5	57.5
Punjab	—	—	—	—	116.5	128.1	128.7	127.3
Bombay	131.6	134.9	133.1	132.3	130.6	125.1	129.7	126.9
Financial surplus (deficit) (Revenue expenditure)[a]								
United Provinces	11.5	17.7	22.4	19.7	20.9	18.8	26.2	−8.3
Central Provinces	—	—	4.5	4.0	1.2	−0.4	−0.7	−0.4
Madras	30.3	34.2	37.4	31.7	32.0	26.7	20.7	13.9
Bengal	−11.0	−2.6	3.5	−14.4	3.4	−4.4	0.0	0.8
Assam	−4.2	−0.7	11.3	4.4	6.4	6.4	7.7	−0.5
Bihar and Orissa	—	—	—	0.7	0.4	−4.9	−2.9	−1.7
Punjab	—	—	—	—	24.7	26.0	3.5	−0.4
Bombay	−4.3	14.8	8.4	6.2	−4.2	−12.1	−2.0	−2.1

	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36	1936/37
Revenue								
United Provinces	129.7	119.7	112.2	114.5	112.4	113.0	118.8	118.1
Central Provinces	55.6	55.6	51.2	49.3	46.4	47.3	48.1	48.1
Madras	180.9	168.4	163.0	164.0	162.8	164.4	162.9	164.0
Bengal	113.6	96.6	90.1	93.8	90.6	110.3	114.8	114.9
Assam	17.7	29.9	28.2	24.8	24.3	26.3	23.6	23.7
Bihar and Orissa	58.9	54.3	51.5	50.4	50.1	53.7	55.4	47.0
Punjab	125.4	118.2	125.0	106.5	108.5	109.1	106.5	108.0
Bombay	133.3	113.0	120.9	120.3	121.5	117.4	120.6	n.a.
Financial surplus (deficit) (Revenue expenditure)[a]								
United Provinces	6.4	−9.1	−6.2	1.5	−0.3	−1.3	1.7	−6.4
Central Provinces	2.9	0.2	2.5	0.4	−0.2	0.2	0.6	−0.9
Madras	12.4	−10.6	0.6	7.7	0.0	0.5	−3.2	0.0
Bengal	0.2	−17.5	−19.9	−13.0	−17.6	−0.5	−0.4	−4.1
Assam	−5.6	0.0	0.0	0.0	0.0	0.0	−25.2	−28.2
Bihar and Orissa	−2.2	−7.1	−3.5	0.2	−1.0	0.6	−0.7	−1.2
Punjab	10.5	3.9	6.2	7.9	6.6	6.6	0.9	0.2
Bombay	1.1	−18.2	−4.7	2.2	1.5	−2.0	−2.2	n.a.

Source: Z.A. Ahmad, *Public Revenue and Expenditure in India,* Congress Political and Economic Studies, No. 8 (Allahabad: Political and Economic Information Department of All India Congress Committee, 1938).

[a] Net of the provincial contributions to the central finance.

TABLE 2-3

PROVINCIAL REVENUES AND CENTRAL REVENUES COLLECTED IN THE PROVINCES, 1928/29

(Rs. million)

	Madras	Bombay	Bengal	United Pro-vinces	Punjab	Burma	Shan States	Bihar and Orissa	Central Pro-vinces	Assam	Total
Provincial											
Land revenue	52.5	48.5	32.7	60.4	27.8	54.0	0.5	17.4	21.9	11.7	327.4
Excise	55.9	39.2	22.5	13.1	12.1	13.3	0.1	18.9	12.3	6.6	194.0
Stamps	25.1	16.8	35.5	17.3	12.1	7.1	—	11.0	7.0	2.2	134.1
Income tax (D.R. 15)[a]	0.5	—	—	—	0.4	1.2	—	0.5	0.2	0.7	3.5
Irrigation (net)[b]	18.3	6.6	−0.1	8.5	37.4	3.3	—	2.1	—	—	76.1
Forests	6.2	7.3	3.1	6.2	3.5	16.1	2.0	1.1	5.4	3.8	54.7
Other heads	16.8	33.8	16.0	9.0	18.2	10.5	3.2	6.8	6.8	2.4	123.5
Total	175.3	152.2	109.7	104.5	111.5	105.5	5.8	57.8	53.6	27.4	913.3
Central (collected in provinces)											
Customs	46.9	192.1	185.0	—	0.9	65.7	—	—	—	2.3	492.9
Taxes on income	13.1	31.7	61.5	9.0	6.1	18.5	—	9.1	3.3	1.5	153.8
Salt	14.8	15.8	17.6	—	—	3.5	—	—	—	—	51.7
Opium	—	—	—	32.7	—	—	—	—	—	—	32.7
Other heads	1.9	8.8	3.6	0.5	3.1	1.0	—	0.3	0.3	0.1	19.6
Total	76.7	248.4	267.7	42.2	10.1	88.7	—	9.4	3.6	3.9	750.7

Source: *RISC*, Vol. 2, p.230.

[a] Under Devolution Rule 15, when the income assessed to the income tax in any year subsequent to 1920/21 exceeds in any province the assessed income of 1920/21, an amount calculated at the rate of three pies in the rupee on such excess is allocated to the providence.

[b] Includes land revenue due to irrigation.

after the Depression was remarkable. At the same time, growing expenditures for law and order were necessitated due to nationalist activities which often became violent (this will be discussed further in the next section).

These chronic financial shortages in the provincial finances of Bengal exhibited a sharp contrast to its rich contribution to the central exchequer. Bengal and Bombay together generated 80 per cent of India's customs duty and 60 per cent of the taxes on income (Table 2-3).

Thus Bengal's grievance against the Meston Award and its demand for a more generous allotment of income tax proceeds had a common grounds with demands from the more developed provinces like Bombay.

However, Bengal suffered from peculiar financial difficulties in the days of the Dyarchy. It is this peculiarity in the problems of Bengal finance during this period that merits the special attention. As the report on the workings of the reformed constitution issued in response to an enquiry by the Indian Statutory Commission in 1927 states, "Bengal shares with Bihar and Orissa the effect of a Permanent Settlement that bars the expansion of land revenue, and with Bombay the loss of revenues derived from industrial and commercial wealth; but Bengal *alone* suffers from *both* these causes" (italics added).[3]

Although land revenue in most of the provinces lost its upward elasticity during this period, the constraints effected by the land system was a serious bottleneck in Bengal finance. Still more, the Bengal government had little means to absorb the taxable income originating from the growing trade in raw jute and jute goods. Although jute crop occupied on the whole only about 10 per cent of the province's cultivated land, it was the single most important source of monetary circulation in the Bengal countryside.

Due to the fact that large resources were mobilized from a few provinces, which did not receive appropriate compensation in return, it could be claimed that undue encroachment was made on the tax capacity of such provinces. They were thus forced to ask either for the refund of a sizable amount of the tax revenues collected within their jurisdiction, or for the power to tax their own resources more liberally. Such demands grew stronger and stronger under the Dyarchy in the province of Bengal, which was suffering from a peculiar financial malaise in addition to being involved in an extremely volatile political situation.

In the above context, the issue of refunding to the provinces proceeds of the jute export duty, which was then the sole tax on the expanding jute trade, was most heatedly debated in the Bengal Legislative Council. The debate, which can be traced back to as early as 1921, began against the background of chronic deficits in Bengal finances under the Dyarchy. Gradually the issue came to be taken up by certain groups of Indian politicians and later, interestingly enough, by British trade circles (notably, the Bengal Chamber of Commerce).

In the process of recasting the Government of India Act, which began in 1927 and continued up to the final passage of the new act in 1935, devolution of the jute export duty to the jute-growing provinces was a subject of protracted discussions. A settlement was reached after passage of the new act by an award stipulating provincial shares.

The issue of the devolution of the jute export duty came to the fore primarily because of the need to revise financial settlements associated with the constitutional debates in the twenties and thirties, but the arguments for sharing the customs duty, which was a source of central revenues in common fiscal practice, varied widely. The varying shades of opinion certainly reflected the diversity of demands by the many different blocs of vested interest in the jute economy.

The points raised in the aforesaid debates and the subsequent settlement amply show that the issues were not only financial but political as well and, as the following sections will indicate, controversies were, to a certain extent, the harbinger of what would become known as one of the major bones of contention in center-state financial relations in the post-independence era.

The Great Depression and the Crisis in Bengal Provincial Finance

The Jute Export Duty and Its Incidence

The year 1916, when the jute export duty was imposed for the first time, represents a watershed in the tariff policy of the Government of India. Tariff policy was first utilized to compensate the growing government deficits accumulated under the strains of the First World War, but as an attendant result it also played the role of import protection with raised tariff barriers.[4] The imposition of a duty on jute exports was a measure taken as a part of such taxation proposals, and the proceeds from the jute export duty occupied the largest share among the export taxes.[5]

The duty was justified, though hesitantly, by the Fiscal Commission in 1921–22. The commission feared that such a heavy duty would induce other countries to look for alternative sources of raw jute or to promote the development of substitutes, so that eventually the producers of raw jute, i.e., cultivators, would have to bear the burden of the duty, not the consumers of the jute products. Nevertheless, the commission set aside its own apprehensions, saying that the current rate of duty, which was a specific duty, was meant for revenue purposes and was at the same time not so high as to invite the apprehended situation.[6] (See Table 2-4 for rates of duty on raw jute and jute products and the ad valorem rates in terms of percentages in 1926 and 1932.)

Afterwards the perception of the government underwent a slight change when the Taxation Enquiry Committee in 1924 recommended a stay in the duty rate for jute products. This committee maintained the view that the rate had already reached the level where any further upward revision would bring about the situation first apprehended by the Fiscal Commission.[7]

TABLE 2-4
RATE OF JUTE EXPORT DUTY

	Rate per Unit		Ad Valorem Rate on Current Price	
	1916 (Rs-A-P)	1917– (Rs-A-P)	1926 (%)	1932 (%)
Raw jute (per bale)	2-4-0	4-8-0	5.9	20.1
Cutting (per bale)	0-10-0	1-4-0	n.a.	8.0
Sacking (per ton)	10-0-0	20-0-0	3.8	8.5
Hessian cloth (per ton)	16-0-0	32-0-0	4.2	9.4

Source: United Kingdom, *Indian Round Table Conference (Third Session), 17th November–24th December 1932*, Cmd. 4238 (1933), p.160.
Note: Rs-A-P = Rupees-Anna-Paisa.

It estimated the ad valorem rate of the duty to be around 4–5 per cent and stressed that any further upward revision would encourage the cultivation of substitute crops for jute and induce the development of bulk handling technology. It also pointed out that in spite of India's monopoly position in jute cultivation, changes in trade conditions would transfer the burden of the duty onto the shoulders of the cultivators. In that case, the inhabitants of the jute region would be subject to discriminatory taxation in the form of the shifted burden of the export duty.

In spite of this enlightened view of the situation, the report of the Taxation Enquiry Committee was seriously handicapped in two points. First, it never visualized a situation where the fall in the price of raw or manufactured jute automatically would raise the rate of taxation to an extreme degree, which actually happened after the crash in the jute price after the Depression (see Table 2-4).

Secondly, the commission could not foresee a situation where a change in the incidence of taxation would alter the nature of the tax or duty itself. In the present case of the jute export duty, any shift in the tax base from the consumer to the jute growers means at the same time that the duty is no longer a customs duty imposed on foreign consumers, but rather becomes a kind of excise duty imposed on the domestic cultivators. This complicates further the issue of how to share the proceeds from the jute export duty between the center and the provinces, since a part of the excise duties was provincial items under the new financial setup.

So long as the jute trade was expanding and price levels were steady or up-

TABLE 2-5
CUSTOMS REVENUE OF THE GOVERNMENT OF INDIA, 1916–35

(Rs. million)

Revenue Heads	Average 1916–19	Average 1921–23	Average 1924–26	Average 1927–29	Average 1930–32	Average 1933–35
Import	124.8	310.4	394.3	407.0	384.2	378.4
Export	35.7	50.8	58.6	59.5	42.8	43.4
of which						
Hides & skins	—	4.0	3.0	3.6	2.0	0.9
Raw Jute	7.9	13.7	16.6	21.0	14.3	18.3
Jute goods	12.4	18.2	21.4	23.9	17.8	17.9
Rice	8.5	10.2	12.7	10.9	8.7	6.4
Tea	4.7	4.7	4.9	0.1[a]	—	—

Sources: For 1916–19, Government of India, Department of Statistics, *Statistics of British India,* Vol. 2, *Financial Statistics* (1922). For 1921–35, Government of India, Department of Commercial Intelligence and Statistics, *Statistical Abstract for British India*, various issues.
[a] Only for 1927.

ward moving, these propositions were presented only for the sake of offering a rationale for the imposition of duty. However, the situation was not so stable, especially after the Depression. In spite of the rise in the rate of taxation, gross revenue from the export of raw and manufactured jute fell in the Depression years as shown in Table 2-5.

The Crisis in Bengal Provincial Finance

The jute trade, already set in a downward trend even in 1929, was hit hard by the Great Depression. The Depression began to cast shadows on the jute trade in early 1930.

Another development, which was more political in nature, further deepened the crisis. The disobedience movement launched by the Indian National Congress stirred the masses even in remote jute districts. Coupled with the general deterioration of law and order due to economic hardship, Bengal government financial problems were further aggravated. Deficits in the years 1930/31 and 1931/32 surpassed the levels recorded at the inauguration of the Dyarchy (Table 2-6).

The debate on Bengal finance in general, and on the jute export duty in particular, took on a new dimension due to this overall politico-economic crisis.

Maintenance of law and order became an extra-burden on Bengal finance from 1929/30. The provincial contribution was remitted from 1922/23, and several retrenchment measures were taken with the result that in 1928/29 and 1929/30 the revenue account was more or less balanced. However, in 1930/31 the deficit was the largest ever since 1921/22. Depression and political instability reduced revenues and increased the burden of law and order expenses. The

TABLE 2-6
BENGAL FINANCE, 1921/22–1936/37

(Rs. million)

	1921/22	1922/23	1923/24	1924/25	1925/26	1926/27	1927/28	1928/29
Revenue (R)								
Total	98.78	98.54	101.33	103.23	107.06	105.04	108.13	109.87
Land revenue	30.19	31.26	31.30	31.07	30.06	31.12	31.51	32.68
Excise	18.30	20.11	20.99	21.51	22.80	22.52	22.43	22.49
Stamps	27.38	30.22	31.67	33.67	35.80	33.16	34.68	35.49
Expenditure (E)								
Total	109.82[a]	101.15	97.81	117.61	103.67	109.39	108.10	109.06
Police	19.10	18.52	17.69	17.94	17.94	18.74	18.54	19.59
General admin.	10.94	11.79	11.65	11.18	11.53	11.77	11.75	12.06
Admin. of justice	10.37	11.18	10.68	10.69	10.86	10.83	10.85	10.65
Education	11.94	12.18	12.31	12:10	13.17	13.58	13.79	14.03
Civil works	14.19	10.14	9.30	9.55	11.04	11.17	10.11	9.73
Surplus (deficit) (R − E)	−11.04	−2.61	3.52	−14.38	3.39	−4.35	0.03	0.81

	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36	1936/37
Revenue (R)								
Total	113.59	96.63	90.11	93.80	90.58	110.27	114.74	114.94
Land revenue	32.47	30.89	30.62	30.01	32.11	34.29	34.33	32.85
Excise	22.63	18.02	15.60	14.03	13.41	13.67	13.37	13.47
Stamps	39.20	31.29	27.11	31.30	28.71	28.60	29.59	29.49
Expenditure (E)								
Total	113.35	114.09	110.05	106.78	108.17	110.80	115.12	119.08
Police	20.92	22.09	22.10	21.95	22.27	22.47	22.88	23.47
General admin.	12.43	12.52	12.33	11.71	12.15	12.15	12.92	14.39
Admin. of justice	10.70	10.62	10.17	9.41	9.66	9.46	9.71	9.92
Education	14.37	14.18	13.38	12.63	12.65	12.76	13.04	13.28
Civil works	9.46	10.15	8.84	7.62	7.62	8.02	8.67	10.70
Surplus (deficit) (R − E)	0.24	−17.46	−19.94	−12.98	−17.59	−0.53	−0.37	−4.14

Source: Ahmad, pp.76–81.
[a] Net of the provincial contribution amounting to Rs. 15.505 million.

police, which always topped the heads of the expenditure accounts, reached the level of 20 per cent of annual expenditures in spite of the remarkable decrease in revenue (see Table 2-6).[8] Among Indian politicians, persons like P.C. Mitter, K. Nazimuddin, A.K. Ghuznavi, and B.P. Singha-Roy were expressing their concerns in this respect. They shared the view that to counter the "terrorist" menace, the Bengal government had to be financially sound, and this was possible only by giving the province a share of either the jute export duty or the income tax proceeds by slightly modifying Section 129A of the 1919 Act.

The views of Bengal politicians were not isolated examples. Punjabi politician, Fazl-i-Hussain, who was then in the Viceroy's Executive Council, shared a similar view.[9] The Government of India referred a memorandum prepared by him to B.P. Singha-Roy and asked for comments. Fazl-i-Hussain noted that terrorism thrived in an atmosphere of public antipathy toward the government, and the best way to counter it was to encourage cooperatives and cottage industries to promote agriculture. B.P. Singha-Roy expressed his agreement.[10]

Interestingly, British jute and trade interests represented by the Indian Jute Mills Association (IJMA) and Bengal Chamber of Commerce joined the debate out of their own motives and interests. As early as 1927, the Narayanganj Chamber of Commerce deplored the insufficient police force in jute producing districts. A letter from the Narayanganj Chamber of Commerce reported "the theft of bales from vessels" and a shortage in the police force. Several letters traveled between the chamber and the police department of the Bengal government. However the issue was almost "dormant" as late as February 1930.[11]

Immediately after the Chittagong Armoury raid incident in April 1930, the Bengal Chamber of Commerce wrote to the Bengal government for "as large as a detachment of military police for the protection of the port, and its trade, and inhabitants, as is now stationed in Dacca and in Akyab."[12] They repeatedly warned the government about the hardship that would be imparted on cultivators if they had to curtail any of their usual outstations for want of proper police protection at the time of jute harvest.[13]

By July the demand escalated to establishing a second battalion of military police for Bengal. While the Bengal government failed to make a quick decision, a serious anti-moneylender riot broke out in Kishoreganj. The chamber wrote again:

> But they [the chamber] find it extremely difficult to understand why, having regard to the more recent disturbances in the Kishoreganj Subdivision of the Mymensingh District, where the assistance of the armed police had to be called in to quell disturbances, resulting in bloodshed, looting of houses and arson by organized bands of Hooligans, the local Government has any doubts what so ever regarding the necessity for the second armed battalion of police, which the Committee of the Chambers so strongly press for. Absence of the prompt action on the part of Government in dealing with the present tense situation in Bengal, can only lend force to the prevailing impression that the local Government is not alive to the needs of the Province in the matter of police protection.[14]

Under the severe strain in the economic and political life of Bengal after the Depression, almost every sector of society looked to provincial finance as the saviour. The jute export duty, because of its regional nature, became the most coveted source of revenue to rescue Bengal from the brink of bankruptcy. Some kind of breakthrough was eagerly awaited by the pro-British politicians as well as business circles, both British and Indian.

Pending the constitutional reforms, high officials in the Bengal government sought immediate relief for provincial finances. P.C. Mitter, then the Revenue Member, in a note to the file on the appreciation of the political situation in Bengal, called for a grant of a share of the jute export duty, or income-tax, amounting to Rs. 13 million by amendment to the Devolution Rules by the British Parliament.[15]

However, reallocation of the jute export duty was not easily conceded by successive committees and commissions of the Round Table Conference (RTC) which went to work framing a new constitution and investigating related issues, including provincial finance.[16]

At the moment, restoring order as a precondition to enforcing the new constitution was inseparable in Bengal from rescuing the shattered jute economy and putting provincial finances on more solid ground.

Sir John Anderson and Bengal

The choice of a new governor, Sir John Anderson, was not made casually. The crisis in Bengal was deep economically and politically. The jute industry had to be salvaged from the slump, a situation to a great extent created by the competition between the British and Indian mill owners. Rural reconstruction was to be taken up, and above all militant nationalism had to be countered.

The jute question occupied a pivotal place in Anderson's policy. He seemed to have already decided on the question of the jute export duty before landing in India. Between November 1931, when his appointment was made, and March 1932, when he arrived in Bengal, he had studied the Bengal question and within six weeks of his assuming the office of governor, he sent a memorandum on Bengal to the King.

To quote from his biography:

> Repressive measures alone will never destroy terrorism [he wrote to the King]. They are essential: but, to achieve the desired result, they must be accompanied by measures of quite another kind—measures which in present circumstances the Local Government are not in a position to take. It is essential to create an atmosphere in which the germs of terrorism, now so widely disseminated and, as the grim experience of this Province bears witness, so tenacious of life, cannot readily survive. Not only must the political aspiration of the people of Bengal be satisfied by the fulfillment of pledges already given, but the Government must be placed in a position to develop a constructive policy deliberately calculated to enlist in increasing measure the interest, support and co-operation of the masses.[17]

Then concerning the jute duty John Anderson contended in this same memorandum that:

> To retain the duty for the Central Exchequer [Anderson wrote, in concluding his argument] is merely to tax Bengal for the benefit of the other units in the Federation.

Such a position would be intolerable, even apart from the special considerations brought to notice in this memorandum. It is now [1931–1932] at the rate of about Rs.3,10,00,000. The addition of this sum to the annual income of this Province would transform the whole situation. In my considered judgment it is called for no less as a matter of bare justice than as a matter of political expediency. Without such relief the reforms are, in my opinion, doomed so far as Bengal is concerned and I cannot but think that a complete breakdown in Bengal would spell disaster to India. Once the decision is taken to remove this long-standing grievance, we can make an appeal for co-operation to which I am certain there will be an immediate and widespread response.[18]

Open support expressed by the governor for the devolution of the jute export duty was a clear departure from the views of his predecessors, and important sections in the Government of India may have given tacit support to him.

Immediately before the third RTC (1933), the Secretary of State for India made a statement to the conference hinting at change in the official position with regard to provincial finance. Expressing appreciation for the schemes presented by earlier committees (i.e., the Peel and Percy committees) he, nevertheless, suggested the necessity of a review of the problem due to "certain facts" which had emerged later. First, provincial contribution in lieu of income-tax sharing was supposed by him to be a dangerous step, as was the case in the Montford reform. Secondly, recovery of the world economy had not been as well as was expected by the Percy committee. It was apparent that many provinces would inaugurate the new constitution with deficit budgets. Focusing on these difficulties, the Secretary of State presented options to the RTC asking whether constitutional change should not be postponed until after financial recovery or if there were not any emergency devices to balance the budgets of the deficit provinces. In the latter case, according to him, the issues would be (a) to find emergency measures to inaugurate new reforms and (b) to clearly demarcate the taxation powers and resources of the central and provincial governments.[19]

Apparently the Secretary of State had already made up his mind in this note to revise the earlier schemes and to accommodate the demands of the deficit provinces, Bengal in particular. The change in official policy took place simultaneously in Britain and India. The final report of the committee mentions Bengal in particular.

In the case of Bengal, we recognize that the difficulties arising from the present distribution of resources are exceptional and we suggest that they might perhaps be met by according to the province some share in the revenue from jute. We make no definite proposal as to the form which this share should take, as the question requires technical examination. A suggestion, however, which appears to some of us to afford a possible expedient, is that the export duty on manufactured jute might be removed, and a central excise on such jute imposed, to be distributed to the provinces in which it is levied. A device of this kind would apparently overcome the serious difficulties likely to arise from giving any authority other than the Federal Government the power to impose export duties, or providing that a portion of the proceeds of any export duty should be assigned to a province.[20]

The stand of the committee was far more advantageous to Bengal than earlier schemes; however, two members, Sirkar and Ghuznavi, insisted on allotting the total proceeds from the jute duty to the provinces, while suggested keeping 50 per cent at the center for a certain number of years.

The fact that the change in policy occurred immediately after the appointment of Sir John Anderson amply shows that he worked under approval from the decision-makers in the British government and was entrusted with the task of piloting Bengal to a point where the new constitution could be safely enacted.

The greatest concern was for the new constitution to embark in safe waters, and a proper financial settlement was considered to occupy the most important place for this to happen. This was one of the lessons both Indian conservatives and the British rulers learned from the working of the 1919 constitution.

Conclusion: Finding a Link between the Pre- and Post-Independence Debates

Devolution of the jute export duty, agreed to in principle during the third RTC, received constitutional sanction in Section 140, (2) of the 1935 Government of India Act.[21]

The actual decision as to the exact share of devolution along with other financial settlements between the federation and the provinces were left to the Commission of Financial Enquiry of Sir Otto Niemeyer, whose name was attached to an award incorporated into the Devolution Rules. The Niemeyer Award, made in 1936, granted a share of 62.5 per cent of the jute duty, a prescribed upper limit of the share to be distributed among the jute-producing provinces.[22]

Anderson's hope of installing Nazimuddin as a leader in the new provincial assembly was dashed by the election results, and in 1937 he resigned the governorship. New financial settlement between the center and provinces under the 1935 act and the Niemeyer Award could contribute little to alleviating the basic constraints on Bengal provincial finance as was observed by the report of the reformed constitution in 1927. In the debates which preceded 1936 and the arrangements reached against the background of an extraordinarily critical situation, cross currents of regional and class interests are clearly visible. In an economy of regionally uneven development, the sharing of financial resources among regional units include intricate economic and political issues.

Finally, to give a full description of the problem of sharing the jute export duty during the colonial period, one cannot overlook the fact that the provincial share of the jute export duty, which had been the subject of repeated discussion for fifteen years, was reduced to 20 per cent by Sardar Vallabhbhai Patel on the eve of Indian independence. This move was interpreted by the state government of West Bengal as a sign of central insensitivity to a state irrecoverably affected by the partition.[23] As a matter of fact, this decision was later considered to be the first central onslaught on the state's finances. Even the Congress government led by Dr. B.C. Roy often had to protest against the central government's financial treatment of West Bengal.[24]

To conclude, in order to carry the topic discussed here over into the post-independence issues of state finance in India, it would be most appropriate to draw attention to the virtual denial by the Drafting Committee of the Constituent Assembly of India of important recommendations by the Expert Committee on revenue distribution. The Expert Committee, chaired by Nalini Ranjan Sarkar, recommended wide ranging devolution of resources to the states, including the placement of the corporate tax into a divisible pool and provision of compensation for the jute export duty, which according to the committee's view, belonged to the central government. The Drafting Committee, though accepting all other recommendations by the Expert Committee, rejected those parts relating to the distribution of revenues between the center and the states.[25] Afterwards, when the draft constitution was put to a debate in the state assembly, N.R. Sarkar, the finance minister of the West Bengal government, revived his recommendations as a motion in the assembly, which was agreed to without a division.[26] In this move by the West Bengal assembly we find a link between the pre- and post-independence debates on federal finance.

The two successor states of Bengal, West Bengal in India and East Bengal in Pakistan traversed a long road in search of a suitable framework to accommodate the various interests within each state. In the framing of the colonial constitution, as represented by the 1935 Government of India Act, people's aspirations for social progress were reflected indirectly, which was not the case once the nation became independent. Recasting federal structure in post-independence states became much tougher task, as the states got far more exposed to the growing political participation by a citizenry more conscious and less tolerant of regional disparities.

Notes

1 J.N. Gupta, *The Case for Financial Justice to Bengal* (Calcutta: Calcutta University Press, 1931), p.4, pp.8–20.

2 According to the *Report of the Indian Statutory Commission*, growth in expenditure for education and medical relief/public health between 1922/23 and 1929/30 was 21% and 24% respectively in Bengal, whereas in Madras it was 82% and 115%, in Punjab 78% and 94% and in the United Provinces 47% and 67% (Government of India, *Report of the Indian Statutory Commission,* Vol.2, *Recommendations*, Cmd.3569 [1930] [hereafter cited as *RISC*, Vol.2], p.234).

3 Government of Bengal, Appointment Department, *Report on the Working of the Reformed Constitution in Bengal, 1921–27* (1928), p.83.

4 "During the war the interests of Indian traders were subordinated to war-time necessities, but the pressing need for revenue resulted in fiscal measures which eventually transformed the whole system." (Vera Anstey, *The Economic Development of India,* 4th ed. [London: Longmans, Green and Co., 1957], p.347.)
5 See Table 2-5.
6 Government of India, *Report of the Fiscal Commission, 1921–22,* paras.174–85.
7 Government of India, *Report of the Taxation Enquiry Committee, 1924–25,* paras.154–56.
8 Government of Bengal, Finance Department, Finance Branch, *4P-1, B154–55, May 1935.* This file notes that of the gross increase of expenditure of Rs.20.8 million between 1922 and 1934, one-third was due to law and order expenditure for police, jail, etc.
9 Azim Husain, *Fazl-i-Husain, A Political Biography* (Bombay: Longmans, Green & Co., 1946), Chap.14, p.227 in particular.
10 Government of Bengal, Political Department, *File No.751/32, Ser. Nos.1–2 (Confidential).*
11 Government of Bengal, Police Department, *P3P-6/1930, 356-B70 [May].*
12 Bengal Chamber of Commerce, *Report of the Committee of the Bengal Chamber of Commerce for the Year 1930,* Vol.2 (Calcutta, 1931), pp.18–19.
13 Ibid., p.466.
14 Ibid., p.21.
15 Government of Bengal, Political Department, *File 345, Ser. No.18 (Part II) [Secret]: An Attempt at an Appreciation of the Political Situation in Bengal, by W.D.R. Prentice, Hon'ble Home Member (Political), 28 May, 1931.*
16 *RISC,* Vol.2, paras.261–62 and 295 and United Kingdom, *Report of the Federal Finance Committee, Dated 28th March 1932,* Cmd. 4069 (1932), p.23.
17 J.W. Wheeler-Bennett, *John Anderson, Viscount Waverley* (London: Macmillan, 1962), p.129.
18 Ibid., p.132.
19 United Kingdom, *Indian Round Table Conference (Third Session), 17th November–24th December 1932,* Cmd. 4238 (1933), pp.58–59.
20 Bengal Legislative Council, *Bengal Legislative Council Proceedings* (hereafter cited as *BLCP*), Vol.41, No.1 (February 21, 1933), p.84.
21 "... one half, or such greater proportion as His Majesty in Council may determine, of the net proceeds in each year of any export duty on jute and jute products shall not form part of the revenues of the Federation, but shall be assigned to the Provinces or Federated States in which jute is grown in proportion to the respective amounts of jute grown therein."
22 Informally, however, devolution had been in effect since the 1934/35 budget (*BLCP,* Vol.43, No.4 [February 28, 1934], p.364). It should be noted that Sir Otto conceded 62.5% of the Jute duty on different grounds from the Bengal politicians or administrators. He was very much sceptical of the contention that the burden of this duty fell wholly on the producers and hence the growing provinces had due claim for it. He contended that:

> No source of revenue, whether Customs, Excise or Income Tax, can in fact, in any country be derived equally from all parts of the country alike, rich or poor, industrial or agricultural. In so far as a claim may be put forward on the ground that the taxable capacity of Bengal

is limited by the incidence of this Duty, that is a claim not so much to this particular Duty as to financial assistance generally; it is part in fact of the case for a share in Taxes on Income or for such prior special treatment as it is the object of my present recommendation to secure. (United Kingdom, *Report, Indian Financial Enquiry, by Sir Otto Niemeyer,* Cmd. 5163 [1936], p.14)

23 By the India (Provisional Constitution) Order, 1947 [August 15, 1947], the following changes were made in Section 140 of the Government of India Act, 1935.

> The statutory guarantee to the jute growing Provinces of a minimum 50 percent was cancelled and the determination of the Provincial share was left wholly to the Governor-General on advice. The manner of distributing the net proceeds among the jute-growing Provinces was, however, left untouched, i.e. to say, the principle of distribution in proportion to the respective amount of jute grown in each Province was retained.

On the post-independence allocation of income-tax and jute duty to West Bengal, refer to Government of Bengal, Finance Department, *Memorandum on the Question of Allocation of Income-tax and Jute Duty to West Bengal* (March 1948).

24 Ranjit Ray, "Correspondence between B.C. Roy and Nehru and Patel on West Bengal Problems" (in Bengali), *Ganashakti,* October 18, 1984; idem, "Memoranda by B.C. Roy to the Finance Commissions" (in Bengali), *Ganashakti,* October 21, 1984.

25 Government of West Bengal, *Finance Ministers' Conference, New Delhi, July 1948, Agenda of the Conference and Memoranda Submitted Thereon by the Government of the West Bengal* (1948).

26 West Bengal Legislative Assembly, *Debate on the Draft Constitution* (1948), pp.137–46.