

PROVINCIAL FINANCE IN ASSAM

A Study of Imperial - Provincial Financial Relations, 1874 - 1947



KATONI JAKHALU

Submitted in Fulfillment of the Requirement of the
Degree of Doctor of Philosophy in History
of **North-Eastern Hill University**
Shillong

INTRODUCTION

The emergence of the modern province of Assam is to be traced back to the events of the First Anglo-Burmese War (1824-26). Under the Treaty of Yandaboo 24 February 1826 which brought that war to an end, the medieval Ahom kingdom passed into the hands of the East India Company. At that time the Supreme Government, embarrassed by the financial strain caused by the Burmese war remained undecided as to whether the whole or part of Assam was to be annexed. It was not until March 1826 that Lower Assam was permanently annexed into the British dominion. Its administration was placed in the hands of David Scott, the Political Agent to the Governor-General of Bengal.¹ The retention of the territories was influenced by two major considerations. Strategically, it was important that the region did not relapse into anarchy or face a renewed Burmese invasion. Secondly, the economic factor was especially

¹ A.J. Moffat Mills, *Report on the Province of Assam*, Reprint, Delhi, 1953. For details of Assam under the East India Company, see H.K. Barpujari, *Assam: in the Days of the Company*, Gauhati, 1980.

important. The Burmese war had caused considerable drain on the already depleted Company Exchequer. "The possible loss of any source of revenue or profit was therefore a cause of deepest solicitude to the Court of Directors, and it consequently became a matter of first importance to ascertain how far an equilibrium in the finances could be attained by internal economics and rigid abstention from external adventures".² In the circumstances, the fertile valley of the Brahmaputra held out prospect of being a possible source of revenue under a proper administrative set-up.

British commercial interests too were excited at the prospect of the tremendous expansion of trade and commerce in the Brahmaputra valley and beyond the eastern Himalayas to China and Tibet.³ Trade with Tibet assumed an added importance as it imported more than it exported and the balance was made up in gold and silver. The East India Company needed the gold from Tibet for its tea trade with China as the latter had developed no fascination for any British goods. It was believed that Sadiya would serve as an effective forwarding agency, between India and China.

² P.C. Bougler, *Lord William Bentinck (1828-1835)*, Oxford, 1892, p. 10, cited in P. Goswami, "Colonial Penetration and the Emergence of Nationalism in Assam", in Arun Bhuyan (ed.), *Nationalist Upsurge in Assam*, Guwahati, 2000, p. 11.

³ ASR, General Department, February 1844, No. 12, *ibid.*, p. 12.

Taking these aspects into consideration, the British decided to stay on. This decision marked the beginning of colonial penetration in the region.⁴

Upper
Assam

David Scott, to whom the administration of Assam had been entrusted upon, worked in the beginning with the aid of a "native agency". The new administrative structure was erected on the Khel system inherited from the Ahom rulers. Under the feudal khel system, the revenue of the state were for most part realised on articles of produce and personal labour. Scott discovered that the revenue system of Lower Assam was similar to the neighbouring Bengal districts and retained it. In 1824-25 the receipts amounted to Rs. 1,19 lakhs against the total assessment of Rs. 1,18,000. House tax was also imposed with the view to equalize the burden of taxation on all classes. Profession tax on braziers, gold washers, silk weavers, fishermen and the like continued as under the Assam rule.⁵

Gen In Upper Assam the khel system was retained for administrative purposes but the liability to render personal service was abolished and all

⁴ A. Lamb, *Britain and Chinese Central Asia – A Road to Lhasa*, London, 1962, p. 5, *ibid.*

⁵ For further details, N.K. Barooah, *David Scott in North-East India*, New Delhi, 1970.

paiks were to pay a poll tax of Rs. 3 per head, each having two pooras of rupit land besides bari lands as before. The revenue arrangement in Upper Assam proved to be unsatisfactory enough. In 1825-26 the assessment amounted to Rs. 1,39,000 while receipts came to about Rs. 28,000.⁶ It was long debated whether the British should retain control over the entire or hand over a part of it to a native prince. Scott was of the opinion that Upper Assam being a citadel of Ahom power, therein a native prince should be restored; that the introduction of British rule in Upper Assam would produce widespread resentment and indignation among the former official aristocracy. He also pointed out that the region being sparsely populated would not yield enough revenue. Scott's proposals for the restoration of the Ahom monarchy did not find favour with the Vice-President in Council for they were influenced primarily by financial considerations.⁷

T.C. Robertson, Scott's successor as Agent to the Governor-General, North East Frontier and Commissioner of Assam, found Scott's experiment with the "native agency" had failed and worked towards a

⁶ S. Goswami, *Aspects of Revenue Administration in Assam*, Delhi, 1987, p. 7.

⁷ *Ibid.*, p. 9 and H.K. Barpujari, *op.cit.*, pp. 120-121.

new system. In the following year he introduced in parts of Nowgong and Darrang a land tax and abolished the khels altogether. As to the question of Upper Assam, Robertson was in favour of retaining Upper Assam under the direct rule of the Company, but if that was not possible, he preferred the transfer of Upper Assam to an Ahom prince under the old system. Lord William Bentinck, Governor-General, reviewed the whole issue and favoured restoration of the Ahom rule. Accordingly in October 1832, Upper Assam was placed under Purander Singh, a scion of the royal family, in return for the payment of an annual tribute of Rs. 50,000 out of an estimated revenue of Rs. 1,20,000.⁸

Purander Singh's rule was fraught with difficulties. His administration was financially crippled from the start. The transfer of Naduar, yielding revenue of about Rs. 10,000, to Lower Assam under British administration affected his income and his annual income averaged only Rs. 81,897 as against the estimated Rs. 1,20,000 per annum. Moreover, his restoration did not command universal support. The majority of the nobles opposed his rule and tried to dispose him. To make matters worse since 1835-36, the Raja had fallen into arrears with

⁸ S. Goswami, *op cit.*, p. 10.

his tribute. Captain Francis Jenkins, Commissioner of Assam took a tour of Upper Assam in 1838 and recommended to the Government of India, the immediate resumption of the whole of Upper Assam. This received the approval of the Governor-General in Council. In September 1838, the territory was annexed to the British dominions. It was then divided into two districts Jorhat and Lakhimpur.⁹ In the decades following the Treaty of Yandaboo, the Khasi, Jaintia, Garo, Naga and Lushai Hills along with Cachar were annexed into the domain of the Company. The British province that came to be known as Assam took shape around 1873.¹⁰

In 1854, on the creation of the province of Bengal under a Lieutenant-Governor, Assam was placed under it. Since the Bengal province became too unwieldy, from the point of administration, it was divided to separate Assam into an administrative unit independent of Bengal. Thus in 6 February 1874, the province of Assam was created solely for the administrative convenience of the British Raj. Separated from Bengal the province of Assam came directly under the financial system of the Government of India.

⁹ H.K. Barpujari, *op cit.*, pp. 131-132.

¹⁰ A.C. Bhuyan, *The Political History of Assam*, Vol. II, Gauhati, 1978, p. 58.

By the Pitts India Act 1784, a “system of checks” was introduced into the finances of the East India Company. A Board of Commissioners were given full authority to control all the fiscal acts of the Court of Directors.¹¹ However, till 1833, the finances of the three British provinces¹² were kept to a large extent, distinct and separate. They possessed authority to impose taxes, duties and incur expenditure subject to the control of the Court of Directors and the Board of Control.¹³

The Charter Act of 1833 introduced the system of centralized financial administration and vested the superintence, direction and control of all the revenue in British India in the Governor-General of India in Council. There were numerous claims to the revenues of India. A large part was claimed by the Indian army that ceaselessly engaged in aggressive wars¹⁴ and swelled the military expedition, a substantial proportion was spent in England as Home Charges¹⁵ and there were

¹¹ P.N. Banerjee, *India's Finance -- In the Last Days of the Company*, London, 1928, pp. 8, 35.

¹² The Presidencies of Madras, Bombay and Calcutta.

¹³ *The Gazetteer of India*, Vol. III, Delhi, 1975, p. 926.

¹⁴ The Afghan War 1838-48; Sikh War and the 2nd Burmese War, 1853.

¹⁵ Home Charges were annually remitted to England to pay interest on money expended in India on railways, irrigational works, stores, furlough and retired pay of Civil and military officers, etc. of the Government. In 1876, it had totaled £ 15 million (£ = Rs. 10). S.K. Sen, *Studies in Economic Policy and Development of India, 1848-1926*, Calcutta, 1966, p. 132.

expenses for the top-heavy civil administration in India. The most important source of income was land revenue yielding nearly two-thirds of the total revenue of the country, while salt and opium contributed over a fourth. The distractions of wars by which the Empire had been built up left the Company little time or money to devote to the prosecution of public works. However, small beginnings were made to provide for nation-building or social services in the later half of the nineteenth century.¹⁶

The Revolt of 1857 precipitated a financial crisis and threw the financial machinery of India entirely out of gear. The annual expenditure of the Army went up from Rs. 13.2 crores (1856-57) to Rs. 24.7 crores (1858-59) and in the same period the debt of the Government of India increased by 36 percent.¹⁷ The transfer of the Government of India from the Company to the Crown brought structural changes in the financial system of India. The Act of 1858 made the Secretary of State for India responsible for all India's financial affairs in India and England. All revenue accrued to the Government of India where the Viceroy had

¹⁶ The Gazetteer of India, *op.cit.*, p. 927.

¹⁷ S. Bhattacharya, *Financial Foundations of the British Raj*, Simla, 1972, p. 2.

overriding authority.¹⁸ The provinces became the collecting and spending agencies of the Government of India and ceased to levy any new taxes or collect the old ones in their own name. For the maintenance of the Imperial administration, the Government of India distributed among the various provinces annual allotments from the consolidated fund. The Imperial Government had also complete control over the growth of provincial expenditure and even the most trivial expenditure required the sanction of the Government of India.

James Wilson, India's First finance Member, took charge of the financial administration in 1859, when after the Mutiny, the country was passing through a crisis. A series of budget deficits brought about by the numerous wars and Mutiny had doubled India's debt and the military charges in 1859-60 absorbed more than half the total revenues of the whole of India. Wilson's first task was to restore financial equilibrium. He made drastic reductions in the expenditure on the army and in all branches of the civil administration, reformed the customs tax¹⁹ and introduced into India for the first time the Income tax. Among his

¹⁸ K. Dharma, "The Fiscal System", in Dharma (ed.), *The Cambridge Economic History of India, 1850-1918*, Vol. II, Part II, New Delhi, 1932, p. 907.

¹⁹ B.R. Ambedkar, *The Evolution of Provincial Finance in British India. Writings and Speeches*, Vol. VI, Part I, p. 71.

important financial reforms were the creation of state paper currency, introduction of the system of annual budgets²⁰, accounts and auditing. He laid the foundations of a new financial era on which was built the elaborate structure of today. He did not, however, initiate any devolution to the provinces, for the period was one of great financial stringency.²¹ In fact the Government of India in its anxiety to prevent provincial extravagance, imposed rules of stringency that no financial authority remained except its own.²²

As regards relations between the Imperial Government and the provinces, they were in the words of Arthur Beridale Keith:

Fixed by regulation laid down by James Wilson on the basis of meticulous control, necessary at the time, but more and more vexatious as time passed. The local Governments had the responsibility of collecting and developing important branches of revenue, but the expenditure was narrowly supervised, and they gained nothing from economy in administration. The competing claims of the province were

²⁰ Wilson introduced the Budget system in 1860. The Indian Budget was a statement made before the Legislative Council by the Finance Member before the end of the provincial year. It consisted of 3 parts (i) the Actuals which showed completed accounts of the previous year, (ii) the Revised Estimate and Expenditure of the current year which was about to end and (iii) the Budget Estimate which was a forecast of the receipts except the year about to commence.

²¹ Report of the Indian Statutory Commission, London, 1930, Vol. I, Part V, p. 342.

²² J. Strachey, *India: Its Administration and Progress*, p. 112.

naturally urged with one-sided energy, with the result that the winner of the competition might not be the most deserving claimant.²³

The Indian Councils Act of 1861 did not modify the control of the Supreme Government over provincial matters. The subordinate position of the local Governments²⁴ vis-à-vis the Supreme Government was rigidly maintained. In fact, centralisation continued to be the most conspicuous feature of the Indian financial system until 1870.

²³ A.B. Keith, *A Constitutional History of India, 1600-1950*, Bombay, 1967, p. 187.

²⁴ Local Government refers to the provincial Government and not the local body.

EPILOGUE

“Assam now is the poorest province in the Dominion of India”, Sir Saadulla told the Constituent Assembly on 8 August 1949 referring to the past reform schemes which failed to do justice to Assam, “poor not in resources, but poor in numbers, poor in its financial position and poor in the economic condition of her population. But this poverty has been forced upon her by man-made laws and the inequity of the Central Government”. In reality Assam’s plight lay in the very nature of colonial rule and, as the evidence shows, in somewhat discriminatory policy of the Central Government.

Since the passing of the Charter Act of 1833, the financial relations between the Imperial Government and the provincial governments had been one of inequality, inherent in the financial system established by it. As a result the provinces became mere collecting and spending agencies

of the Government of India and did not have control over the revenues they collected. The repeated conflicts between the Centre and the provinces over the distribution of resources and the series of Imperial deficits in the 1860's compelled Lord Mayo to take the first step towards provincial finance. Beginning from 1870, the devolution of financial powers from the Centre to the provinces were brought about by the "provincial financial settlements" which were in no way equitable or fair to the provinces. Time and again the Imperial Government took advantage of the periodical settlements to strengthen its own position by nibbling into provincial revenues. With the changes now introduced, the functions of the provincial governments gradually expanded and began to spread into the sphere of social services but the uncertain and inadequate resources allotted to them remained the stumbling block to the smooth functioning of provincial finance.

As with other provinces, Assam's most important source of income was Land revenue. This constituted about 50 percent of her total revenues, followed by Excise, Stamps and Income tax. In the early financial settlements between 1874-1904 the Imperial Government appropriated the major share and resumed all provincial surplus while the

province received about 25 percent of the total net revenues. Fresh settlements later made in 1911 to rectify this inequitable division were self-defeating as the increased revenues were followed by increased expenditure under the top-heavy government. Until the introduction of the 1919 Reforms, Assam and the other provinces continued to depend on the much condemned “doles” from the Centre to develop their socio-economic services.

The development of provincial finance came with the Montford Reforms of 1919. For the first time, the revenue of the provincial governments were completely separated from those of the Central Government and popular control given over the “transferred” subjects. This, it was hoped, would bring “responsible government” in India. However, the Meston Award which was openly criticized by almost all provincial governments did great injustice to Assam. Under this settlement Assam was made to contribute Rs. 15 lakhs annually to the Imperial coffers while equally backward province of Bihar and Orissa was exempted from any such contribution. Apart from fixing this rather high amount, the Meston estimates of normal revenue for Assam calculated at 1921 figures, failed to include the revenues accruing in the province

which were wholly Central prior to the reforms. These were Excise duty of petrol and kerosene and Export duty on tea and these continued to be so treated in the reformed period. This arrangement coupled with the Government of India's decision on devolution Rule 15 to give only a small share in the growth of Income tax to the provinces and no power to the provinces to tax their industries sounded the death-knell of Assam's finances.

Assam's main industries such as tea, oil and coal fell under Central taxation, the profits of which never reached Assam. In 1921-1922 Great Britain earned about Rs. 12 crores from the tea produced in Assam while the Imperial Government received approximately Rs. 50 lakhs as Export duty on tea. The province on the other hand earned a few lakhs in the form of Land revenue and local rates from the tea gardens. On Assam's oil alone, the Centre appropriated about Rs. 14 lakhs in 1926-27 while the province received a paltry sum of Rs. 2.50 lakhs as royalty. The 1926-27 budget showed that 75 percent of Assam's total revenue were allotted to the "reserved" departments while only 25 percent went to the popularly controlled transferred subjects. Faced with paucity of funds and inelastic

resources, the ministers failed to develop the nation-building departments. Hence, under Dyarchy matters did not improve in Assam.

By 1933-34, the loss of revenue from her oil became colossal. Central receipts from Assam's Excise duty on petrol and kerosene touched Rs. 2 crores, an amount almost equivalent to her annual budgets. Yet, the province reeled from a series of deficit budgets.

The inability of the province to tide over her financial difficulties stemmed from the fact that the profits from her main industries invariably fell under Central taxation. The repeated pleas and petitions of Assam for a share in the Income tax went unheard and unattended by the various financial commissions and committees set up by the Government of India. The Simon Commission of 1928, the Peel Committee of 1931, the Percy Committee 1932 and the Joint Committee of the Parliament in 1934 were unanimous in their opinion that Assam did deserve special financial treatment but nothing concrete was done to meet her legitimate demands.

The Constitution of 1935 theoretically carried the process of financial decentralization which had started in 1870, still further. Finance

and Law and order, hitherto reserved subjects were transferred to the provinces and budget-passing powers given to the Legislatures. But even under Provincial Autonomy, Assam's finance hardly improved. The Indian Financial Enquiry Committee chaired by Otto Niemeyer in 1935 failed to give Assam the special treatment that she deserved. Earlier the Federal Finance Committee presided by Lord Eustace Percy in 1932, had forecast an annual deficit of Rs. 65 lakhs for Assam in the new federal constitution while the Finance department of the Government of Assam anticipated a deficit of Rs. 75 lakhs by 1935-36. But the Niemeyer award of 1936 granted to Assam as subvention only Rs. 30 lakhs annually. Further the Niemeyer award of 2 percent in the divisible Income tax to Assam was grossly unfair. For out of the thousand tea estates in Assam about 750 had their head offices outside the province, 600 in Calcutta and 150 in London. Thus the Income tax on Assam's tea were either paid in Calcutta or London. The amount paid in Calcutta went to the credit of Bengal which was allotted 20 percent of the total divisible pool while Assam was given only 2 percent. Thus the Niemeyer award crippled the autonomous ministeries.

Sir Muhammad Saadulla, in the Constituent Assembly Debates in August 1949 while representing Assam, referred to the Niemeyer award as “the cruellest joke that could be perpetuated upon a poor province like Assam for you will be surprised to hear that Assam is contributing to the Central coffers to the tune of Rs. 10 crores every year whereas we get the small pittance of Rs. 30 lakhs as annual subvention”. The Congress coalition Ministry in 1938 valiantly raised new taxes such as the controversial agricultural Income tax, Sales tax on motor spirit and the Amusement and Betting tax and resorted to retrenchment but the financial structure as such laid by the Act of 1935 left no room to expand her inelastic resources. By 1940’s the failure of the government to augment her resources pushed the province into dire financial straits that it had to raise a loan of Rs. 50 lakhs to maintain her solvency.

The outbreak of the World war and the Japanese occupation of Burma in March 1942 exposed the neglect Assam suffered at the hand of the Government of India. The necessity of turning Assam into a base of operations for the defence and recovery of Burma and British South East Asia had shown the perils of underdevelopment of a frontier province. The Government of India had to take up the daunting task of transforming

a backward and geographically isolated province into a military war base. Even as the Government of India and Government of Assam grappled to meet the exigencies of war, the lack of adequate communications and infra-structure delayed the British offensive into Burma. To this can be largely attributed the Japanese success in penetrating into the Naga hills and Manipur.

Ironically, Assam which made no insignificant contribution to the nation's security and defence continued too be plagued by deficit budgets even in free India. The budget presented by Bishnuram Medhi in March 1948 revealed that 72 percent of Assam's total revenues went towards payment of salary, leaving very little for developmental works. The imbalance remains to be rectified for the Centre still retains its financial supremacy over the State's revenue by appropriating the lion's share of Assam's capital resources.