

Cochin and the Federation.

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COCHIN AND THE FEDERATION.

A Federation in which both the British Indian Provinces and the Indian States partake as a possible solution of India's constitutional problems, is not suggested for the first time in the White Paper. The idea had been cherished at least as early as the Montagu-Chelmsford Report: "Our conception of the eventual future of India is a sisterhood of States, self-governing in all matters of purely local or provincial interest..... Over this congeries of States would preside a Central Government, increasingly representative of and responsible to the people of all of them; dealing with matters, both internal and external, of common interest to the whole of India; acting as the arbiter in inter-State relations, and representing the interests of all India on equal terms with the self-governing units of the British Empire. In this picture there is a place also for the Native States. It is possible that they too will wish to be associated for certain purposes with the organisation of British India in such a way as to dedicate their peculiar qualities to the common service without loss of individuality". And one important result of the Montagu-Chelmsford proposals was the establishment of the Chamber of Princes, an advisory and consultative body, which has done a good deal to effect solidarity among a large number of the Princes.

Such a Federation was fore-shadowed in the Report of the Simon Commission also: "The ultimate constitution of India must be federal, for it is only in a federal constitution that

units differing so widely in constitution as the provinces and the States can be brought together while retaining internal autonomy". The Commissioners said that the re-organisation of British India on a federal basis would prepare the way for such a federation and that "the new constitution should provide an open door whereby, when it seems good to them, the Ruling Princes may enter on just and reasonable terms". But they did not think it likely that this All-India Federation would "spring into being at a bound". They pictured it only as something which would have to be evolved by a slow process of gradual accretion.

The position was entirely altered by the support which the Princes present at the first session of the Round Table Conference in November 1930 gave to the idea of an All-India Federation. The Simon Commission while recommending full responsible government in the provinces had not suggested any advance towards responsibility in the Central Government. The Federation that the Princes welcomed, however, was one with responsibility in the Federal Government, and this necessitated a departure from the recommendations of the Simon Commission. It paved the way for the Prime Minister's statement on behalf of the Government on January 19, 1931: "With a Legislature constituted on a federal basis, His Majesty's Government will be prepared to recognise the principle of the responsibility of the Executive to the Legislature". This announcement, as Sir J. P. Thompson observes in his recent pamphlet, "India: The White Paper", "put the key of the future into the hands of the Princes", for "the central responsibility to which the Prime Minister referred postulated federation as an essential preliminary".

The second session of the Round Table Conference opened in September 1931. And on December 1st., Mr. Ramsay

MacDonald, as head of the new National Government, stated that they agreed with the main conclusions arrived at during the previous session and clearly re-affirmed their belief in an All-India Federation "as offering the only hopeful solution of India's constitutional problem". He said that they intended "to pursue this plan unswervingly and to do their utmost to surmount the difficulties which now stand in the way of its realisation". The Prime Minister's statement was embodied in a White Paper and was presented and approved by both the Houses of Parliament.

At the end of 1932 came the third session of the Round Table Conference. It left a number of matters undecided and without any hope of an agreed solution in spite of the fact that it had the benefit of the reports of three Committees—the Franchise Committee under Lord Lothian, the Federal Finance Committee under Lord Eustace Percy and the Indian States Enquiry Committee (Financial) under Mr. Davidson—which visited India after the second session of the Conference. As in the case of the communal differences which had dominated the second session of the Round Table Conference the question of Federation also was left to the decision of the British Government. They had to formulate their own proposals for Indian Constitutional Reform and these are embodied in the White Paper of the 15th of March 1933. They are now being examined by a Joint Select Committee of both Houses of Parliament. The White Paper recommends the conversion of the present Government in India into a responsibly governed federation of States and provinces. The proposals are made on the understanding that the responsible government so established must, during a period of transition be qualified by some safeguards, framed in the common interests of India and the United Kingdom.

According to the proposals contained in the White Paper

“the Federation of India will be a union between the Governors’ Provinces and those Indian States whose Rulers signify their desire to accede to the Federation by a federal Instrument of Accession”. By it, “the Ruler will transfer to the Crown for the purposes of the Federation, his powers and jurisdiction in respect of those matters which he is willing to recognise as federal matters”. And thereafter “the powers and jurisdiction so transferred will be exercised on behalf of the Federation and in accordance with the provisions of the Constitution Act by the Governor-General, the Federal Legislature, the Federal Court (with an appeal therefrom to His Majesty in Council) and such other federal organs as the Constitution Act may create”. The powers and jurisdiction of the Federation in the case of participating States will be strictly co-terminus with what is transferred to the Crown by the Rulers and defined in their Instruments of Accession.

Except to the extent of the transfer, the relations of a State acceding to the Federation will be with crown represented by the Viceroy and not with the Crown represented by the Governor-General as the executive head of the Federal Government. The States choosing to stay out of the Federation will maintain relations in all respects with the Viceroy as representing the Crown.

It is a proposition not open to dispute that a State cannot be compelled to accede to the Federation; nor can a refusal to join the Federation affect the existing rights and privileges enjoyed by a State, whether they be the result of subsisting treaties or otherwise. It is equally clear that, if the accession of a State to a Federation is sought on terms incompatible with the scheme of Federation embodied in the Constitution Act, full liberty is reserved to the Crown to refuse the request.

Federation between the States and British India cannot

be achieved by pressure or compulsion on either of the contracting parties. It will have to be purely voluntary in character. It will entail considerable sacrifices on either side. Few, however, will deny that such a Federation is a necessary stage in the political evolution of India. In any case, the operation of forces mainly economic will inevitably draw the parties closer to one another.

According to the 'White Paper, the executive power and authority of the Federation will be vested in the King, and will be exercised by the Governor-General as his representative. He will be aided and advised by a Council of Ministers responsible to a Legislature containing representatives both of British India and of the States.

The Federal Legislature will be bi-cameral. The lower chamber or House of Assembly will have a maximum of 375 members. Of these, 125 will be appointed by the Rulers of the States-members of the Federation. The upper chamber or Council of State will consist of a maximum of 260 members. Of these, 100 will be appointed by the Rulers of the States-members of the Federation.

The allocation of seats among the States-members of the Federation is at present under discussion between His Majesty's Government and the various Rulers. The view of His Majesty's Government on the matter is clear. It is that the allocation should be based on the rank and importance of the State in the case of the upper chamber, and in the main on population in the case of the House of Assembly. The rank and importance of a State for purposes of representation in the Council of State is to be gauged by the dynastic salute and other such factors. Cochin with a Ruler who is entitled to a salute of 17 guns and a population numbering 1,205,106 according to the 1931 census, can hope to get, on acceding to the Federation, at least one seat in each of the two chambers.

The objections to Cochin joining the Federation are mostly economic. They arise as a result of the recommendations of the Indian States Enquiry Committee (Financial). This Committee was appointed towards the close of 1931 with the Right Honourable J. C. C. Davidson as its Chairman. Its task was to find out how far it would be possible, in view of the peculiar circumstances existing here, to achieve the ideal system of federal finance under which all the federal units would contribute on a uniform basis to the federal resources. Two of the most important of these peculiar circumstances are the "ascertained existing rights" of certain States and some contributions of a special character which many of the States are now making or have made in the past to the resources of the Indian Government.

Cochin pays at present a cash contribution of Rs. 2,00,000 to the British Indian Government. The whole of this payment is based upon treaty. According to the Treaty of Alliance of 1791 between the Honourable East India Company and the Raja of Cochin, the Company promised assistance, in return for tribute, in recovering the possessions wrested from the Raja by Tippu Sultan and in making him independent of Tippu's domination.

The Company also agreed that the Raja of Cochin should receive "that protection which the Honourable East India Company always give to their faithful tributaries and allies". The tribute was to be paid in the following manner: "For the first year he possesses the afore-mentioned districts, Rs. 70,000, the 2nd year, Rs. 80,000, the 3rd year, Rs. 90,000 and the 4th year, Rs. 100,000, and ever after, the last mentioned sum (Rs. 100,000), shall be annually paid by him". "The afore-mentioned districts" are the territories to be recovered: and they are set forth in Article 3 of the treaty. According to the terms of the treaty, the tribute is to be paid by the

Raja only on his being put in possession of these districts.....
"Upon Ramavarma Raja being put in possession of the above-mentioned districts, he shall become tributary to the Honourable United English East India Company, and shall pay to the representative or delegate of the Honourable Governor in Council of Madras a yearly tribute....."

The Raja has never been put in possession of all the territories mentioned in Article 3, (For instance, he has never been put in possession of the following districts mentioned in Article 3: Yenamakel, the district of Parattoo Vedee, the district of Kowoolpar, two hills called Themmalapooram and Vadamalapooram, Chetwai and Manapporam, Kaurah, Tireparete, Yada-Turtie) and thus, the terms of the treaty were never carried out in their entirety by the East India Company. The Raja of Cochin should have been given a reduction in the amount of the tribute agreed upon in proportion to the value of the territories the possession of which he never recovered. Cochin did not get any such reduction, and for benefits some of which were never obtained, the State has paid the stipulated tribute for nearly a century and a half. In view of these facts, the memorandum submitted by the Cochin Darbar to the Davidson Committee states that the State has by this time fully discharged its financial obligations under the treaty and is entitled to request that this annual payment of one lakh of Rupees should cease.

In May 1809, a fresh treaty was concluded, a "treaty of perpetual friendship and subsidy between the Honourable East India Company Bahadur and the Raja of Cochin". By this treaty, Cochin agreed to abide by several conditions and to pay an additional annual subsidy of "a sum equal to the expense of one battalion of native infantry or Arcot Rs. 1,76,037". The aggregate annual payment thus came up to

Arcot Rs. 2,76,037. This Treaty has remained in force ever since. The subsidy, however, was reduced to Rs. 2,00,000 in 1818.

The Treaty was the direct result of the conspiracy between Velu Tampi and Paliath Achen, the Chief Ministers of Travancore and Cochin, to drive the English out of the country with French assistance. The Raja of Cochin was all along opposed to the scheme, the assistance of the French did not materialise, the rebellion failed, and Paliath Achen surrendered on the 27th of February, 1809.

The Cochin memorandum to the Davidson Committee argues that the payment is not a contribution towards the general military expenditure of the country, but a consideration made in return for the specific undertaking of the East India Company "to defend and protect the territories of the Raja of Cochin". As a matter of fact, till 1900, British Indian troops were stationed in different parts of the State: Since that date, no special arrangements have been made for the protection of Cochin. There has been no need; the defence of Cochin has ceased to be a military problem. In view of these facts, the memorandum urges the cessation of this annual payment also.

The Davidson Committee suggests, and the White Paper endorses the suggestion, that such contributions should be abolished by a process of gradual reduction. The reduction is to be *pari passu* with the reduction of the block amount retained by the Federation out of the proceeds of income-tax distributable to the Provinces. Only a remission of "contributions" to the extent they exceed the 'immunities' which a State enjoys, is contemplated. The Committee thinks that the contribution are not of a feudal nature. They propose remission on the principle of uniformity of contribution to the federal resources rather than on arguments from feudal analogies.

The major 'immunities' that Cochin enjoys are in respect of Customs and Salt. It is true that Cochin maintains a separate postal system and that the State has got the monopoly of carrying all mails consigned from one place to another within the State limits. The State obtained a net revenue of Rs. 25,977 from this source in 1107 M. E. (1931-32), and the Budget for 1109 M. E. (1933-34) estimates a net revenue of Rs. 29,900 under this head. The Davidson Committee, however, is of opinion, that the maintenance of such separate postal systems constitutes "a privilege of a political or sentimental nature rather than an immunity to which a cash value could be attached".

One of the issues on which the Davidson Committee was required to report was in regard to the varying measures of privilege or immunity in respect of customs and salt, enjoyed by certain States. The Committee was asked to investigate the position in each State with a view to determining "the value of the ascertained existing rights in question". They were also invited to express an opinion "as to what compensation it would be worth while for the federal government to offer in return for the relinquishment of the special privileges which each State now enjoys or such modification thereof as may appear to the Committee to be an essential preliminary to the Federation".

The revenue obtained by the State from Customs and Salt is largely realised in accordance with the Interportal Agreement of 1895 between the British Government and the Darsars of Cochin and Travancore and the Four-Party Agreement of 1925 between the Governments of India and Madras and Cochin and Travancore. By the Interportal Agreement, Cochin agreed to assimilate the monopoly price of salt in the State to that in force in British India. Cochin also agreed to see that the selling price of salt at the inland depots of

the State was not the monopoly price, but the monopoly price increased by the cost of carriage to the depots. In return, Cochin was allowed to import salt from Bombay on payment of the same duty as that levied on salt exported for the use of the Madras Government. The agreement of 1865 still subsists; no such duty has ever been levied and Cochin enjoys complete immunity from payment of the British Indian salt tax.

The new arrangements reacted very badly on the State's revenue from the commodity. From Rs. 1,70,470 in 1864-65, it fell to Rs. 54,693 in 1865-66. However, in the years that have elapsed since the agreement, the revenue from salt slowly recovered to some extent. It is still a prey to fluctuations over which the State has no control as the duty on salt in Cochin has to be raised or lowered according to the variations in the salt duty in British India.

The value of Cochin's right to import salt on the same terms as British India, is not easy to assess. At one time, considerable quantities of salt were manufactured within the State, and it is not difficult to start the manufacturing of salt in Cochin once again. The actual value of the privilege to import salt from Bombay on the same terms as British India should be represented by the difference between the cost of manufacturing salt in Cochin and the cost of Bombay salt delivered in the State. Figures as to the exact cost of manufacturing salt within the State are not available. They will have to be worked out before an accurate assessment of the value of the privilege can be made.

It is, however, possible to know precisely the revenue which the Darbar receives from salt. The average net annual revenue from the commodity during the period of 6 years from 1101 (1925-26) to 1106 (1930-31) amounted to Rs. 3,83,098. The Davidson Committee calculates the annual

value of Cochin's immunity in this matter at Rs. 1—9—0 per maund of salt, and on the basis of an annual consumption of 20.32 lbs. of salt per head, comes to the conclusion that Cochin's immunity is worth Rs. 4,66,576 per year. But except in the case of States in Kathiawar and Cutch, the Committee does not recommend any immediate revision of existing arrangements.

The Interportal Agreement also established freedom of trade between British India and the State in all articles except salt, opium and country spirits. And it assimilated the rates of Customs Duty and Tariff Valuations in force in the State to those of British India. It was recognised that the State was bound to suffer losses under the provisions of this Agreement. As compensation the Government of India granted the right to half of the net customs revenue realised at British Cochin on all goods except tobacco, pepper, salt and opium. This right to a moiety of the annual customs revenue was a right which Cochin used to enjoy in the old days. The Government of India also promised a guaranteed annual customs revenue of one lakh of rupees exclusive of the amount collected on foreign tobacco and pepper, besides a revenue of Rs. 10,500 from its import duty on foreign tobacco.

The Interportal Agreement resulted for a time in a considerable decrease in the Darbar's revenue. The arrangements under that Agreement continued until they were modified to some extent by the Four-Party Agreement of 1925. Under this, Cochin and Travancore entered into certain financial commitments in respect of the development of the Cochin Harbour. It was also agreed that, when the new harbour reached that stage in its development when ocean-going steamers regularly berth within it, the net customs collection at the port should be divided equally among the Government of Madras, and the States of Cochin and Travancore. There

was the implied understanding in the Agreement that the Government of India would be substituted for the Government of Madras, if and when Cochin, as a major port, came under its charge.

It was further agreed that the customs revenue collected on imports at the Travancore ports of Quilon and Alleppey should be brought into the pool with the customs collections at Cochin, before the three-party division is effected. The new allocation of customs receipts, contemplated in the agreement of 1925, has, since the 1st of April 1931, come into effect. The moiety that Cochin used to enjoy has thus been reduced to a third share of the revenue.

The Davidson Committee goes into the question of the Cochin Harbour somewhat in detail, but it makes the following three incorrect assumptions: (1) The port of Cochin is a British Indian and not an Indian State port. (2) Over and above British Cochin, both sides of the harbour enfranchée and an important portion of the lagoon comprising the harbour are also British. (3) There is no question in this case of cession of rights arising from sovereignty, as the rights of the States concerned are in effect only commercial rights. And on the basis of these assumptions it recommends that there should be no delay in starting negotiations with Cochin for the adjustment of the difficulties arising from the divided ownership of the port and with Cochin and Travancore for the purchase of their existing rights in its customs revenue.

The Committee sketches the history of the port thus: "The Portuguese established a settlement at the harbour-mouth in 1502. The Dutch took it from them in 1663, and held it undisputed till 1759, when the Dutch power had begun to decline. The Zamorin of Calicut invaded the settlement, but was expelled with the aid of Travancore; between 1776 and 1791 Hyder Ali and Tippu Sultan asserted their sovereignty

over Cochin. Thereafter it was subjected to attack by the various Indian Rulers, but finally fell to the East India Company in 1791, since when it has remained a British possession. It is a tiny, though very populous, settlement covering one square mile of land; but the land includes both sides of the harbour entrance, and an important part of the lagoon comprising the harbour is also British. It is administered by the Government of Madras, of which Presidency it forms a part, and its customs house is controlled by British Indian Officials". And on the basis that the port of Cochin is a British Indian port and that the acquisition by Cochin under the agreements of 1865 and 1925 and by Travancore under the latter of an interest in the customs revenue of the port is the result of an exchange of valuable considerations, the Committee proceeds to survey the "ascertained existing rights" of the State in the matter.

The Davidson Committee seems to have forgotten the fact that the port in the beginning was entirely within the State territory, and that the Portuguese established the settlement on land granted by the then Raja of Cochin. Both the Portuguese and the Dutch paid the Raja half the customs revenue realised by them at the port. The British East India Company which succeeded the Dutch in possession of the settlement also paid a moiety of the customs revenue for a time. Then, for some years, the Company obtained the Raja's consent to its ceasing to make the payment. The Madras Government, however, which, by then, replaced the Company, signed the Interportal Agreement of 1865 and by it, Cochin's right to a moiety of the customs revenue was once again recognised. The State continued to receive half the customs revenue of the port under this agreement until 1931, when some of the provisions of the Four-party Agreement of 1925, came into force. From that date, the revenue began to be

divided between the Government of India, Cochin and Travancore in equal shares.

Nor is the statement of the Committee that "an important part of the lagoon comprising the harbour is also British" free from doubt. The actual extent of the British area in the waters of the port has been a subject of controversy for many years, and the Government of India has been requested to appoint a Court of Arbitration to decide the question. It can be confidently hoped that an impartial tribunal is bound to arrive at a finding altogether in favour of Cochin. In any case six of the existing nine moorings for steamers in the harbour are in undisputed State waters. Only one of them is situated wholly in British waters. Of the remaining two moorings one is chiefly in British waters and partly in Cochin waters; and the other chiefly in Cochin waters and partly in British waters. One will not be far long if one assumes that expert opinion is in favour of the eventual scrapping of these three moorings situated in British and disputed waters. There is also the fact that ships that come into the harbour often express a preference for the moorings in the State waters alongside the reclaimed area. The whole of the future development of the port, as now contemplated, is to be made within Cochin waters.

The Davidson report contains the following table. The figures give the overseas trade and customs revenue in respect of the port of Cochin for five years, from 1926-27 to 1930-31.

RUPEES IN LAKHS.

| | Imports | Exports | Net customs revenue. |
|---------|---------|---------|----------------------|
| 1926-27 | 5,57.36 | 5,14.18 | 18.25 |
| 1927-28 | 6,46.36 | 5,86.64 | 30.62 |
| 1928-29 | 5,56.57 | 5,74.27 | 28.66 |
| 1929-30 | 5,84.79 | 5,30.84 | 31.56 |
| 1930-31 | 5,41.68 | 4,83.58 | 34.78 |

A glance at the table shows that there has been a marked increase in the customs revenue during the period. And to this can be added approximately Rs. 3,00,000 recoverable from the Travancore ports under the Agreement of 1925.

It is the right to receive a third of this revenue that constitutes according to the Committee the "ascertained existing rights" of Cochin at the present moment. The Committee however is prepared to think that in view of the terms of the 1925 Agreement, they should also bring the revenue likely to be available on the completion of the last stage of the port's development within the ambit of the "ascertained existing rights" of Cochin. The Committee forecasts that by 1935-36, the customs revenue will, in all probability mount up to Rs. 46,00,000. This is a gross under-estimate. Cochin's share of the revenue for 1108 M. E. (1932-33) itself comes to Rs. 16,50,000.

In the opinion of the Committee "the port of Cochin..... as the only port (excluding Portuguese Goa) between Bombay and Colombo which affords safe anchorage and real harbour facilities to large ships at all seasons of the year, and which, when fully developed, will afford all the facilities of a modern port.....is of very great value and must in the future be of even greater value to an Indian Federation in whose undivided possession, unhampered by any obligations to third parties, it clearly ought to be".

The Committee goes on to say: "We are impressed with the potential importance of the port of Cochin as an economic factor in a Federated India. We are, however, strongly of opinion that the proper development of the port will be seriously hampered and its potentialities unlikely to become realities if the conditions which now prevail are not changed. We have come to this conclusion on two grounds: one concerned with the ownership and geographical situation of the

port, the other, with the manner in which its developments have been, financed”.

“On the first point, we have already shown how the port, which was in its origin, and is still to a large extent, a British Indian port under the control of the Government of Madras, now extends into Cochin territory, and will extend still further if and when the present development scheme is completed. A divided ownership and jurisdiction cannot but be harmful to the best interests of the port, and in our opinion, it is urgent that steps should be taken to effect the adjustments required”.

“On the 2nd point, we recall that under the Agreement of 1925, Travancore and Cochin may each be required to provide a further sum of Rs. 30,00,000 or more in order to complete the development scheme. It is reasonably clear that the revenue of the port, as distinct from the customs revenue collected there, will not, at any rate, for a number of years, produce an income sufficient to pay interest and sinking fund charges on the further expenditure which is contemplated, since port dues cannot be increased beyond a certain figure without driving trade away. It therefore follows that the money to be found by Travancore and Cochin will take the form of grants-in-aid earning on interest, and that the only source from which those States could recoup themselves would be from the increased value of their agreed share in the customs receipts”.

“We recommend therefore that negotiations with Cochin for the adjustment of the difficulties arising from the ownership of the port, and with Travancore and Cochin for the purchase of their existing rights in its customs revenue should not be delayed. With regard to the first, we understand that the subject is already under discussion between the parties concerned. With regard to the second it is difficult

to suggest an approximate basis of any offer which might be made. A figure based upon the present receipts would necessarily be of a speculative character, and it must be borne in mind that a further large sum will require to be expended before the port is fully developed; but since a speculative element must enter into the matter, it is far preferable that the risk should be assumed by a Federal Government, which will have the economic interests of India as a whole in its charge rather than that Travancore and Cochin should continue the present system of grants-in-aid in the expectation, though without any certainty of increasing their domestic revenues by a possible rise in the value of their share under the 1925 Agreement in the future customs revenue of the port”.

“There is no question here of a cession of rights arising from sovereignty. The rights of the States concerned came into existence as the consequence of a mutual exchange of valuable considerations. They are in effect commercial rights, which will be susceptible of adjustment on a commercial basis agreeable to both parties and we hope and believe that no real difficulty need be anticipated in bringing the parties together for this purpose”.

The statements contained in the extracts given above can easily be summed up thus: (1) Cochin is a fine profitable port now. It has got every chance of being more profitable in future. So the Indian Federation must have it. (2) The future development of the port will be seriously hampered if the conditions now prevailing are not changed for the following reasons: (a) a divided ownership and jurisdiction is harmful to the best interests of the port. (b) It is unfair to allow Cochin and Travancore to spend large sums of money on the development of the harbour as required by the 1925 Agreement when the chances of an adequate return from the revenue of the port, as distinct from the customs revenue collected there,

are fairly remote.

The first point hardly needs any comment; for from the fact that the port of Cochin is full of possibilities it does not necessarily follow that the ownership should be transferred to the All-India Federation. And as regards the solicitude which the Committee has shown for the financial future of Cochin and Travancore, one can safely assume that the States do not apprehend any embarrassments that should induce them to back out of the partnership. The only important point that arises for consideration is the likelihood or otherwise of the real interests of the harbour suffering because of the existence of a divided ownership and jurisdiction.

How a divided ownership and jurisdiction is detrimental to the best interests of the port is not explained in the report. No such apprehension seems to have been entertained at the inception of the harbour development scheme in 1918. Cochin entered into the undertaking as an equal partner and on the distinct understanding that the participation of the State in the scheme was not to involve any surrender of the rights and privileges of the State. In reply to an address presented to His Highness the late Maharaja on his return from Delhi in December 1919, His Highness said, "I may tell you at once that the agreement involves no cession of territory, not even of a square foot of Cochin land or water. There is to be no cession of jurisdiction either. The Madras Government is keenly alive to the importance of preserving unimpaired the rights and privileges of the Cochin State, and while the carrying out of the scheme will add considerably to the revenues of the state and the income of its people, the prestige of the State will in no way suffer, rather it will be enhanced as you will see when the details of the agreement are published. The work will be carried out jointly under the directions of both Governments; in the decision of quest-

ions arising in the course of it, both will have an equal voice; for the expenditure both will be equally responsible; and the proceeds will be equally shared. I trust this statement will remove the apprehensions I have seen expressed in some quarters as to whether the rights of the Cochin State may not be sacrificed in the making of the Harbour”.

It can safely be said that nothing that has happened since then will justify a legitimate fear that a continuance of the present state of affairs will affect the prosperity of the port. The Associated Press of India reported only the other day, “Cochin port had a brisk trade in June, the landing and shipping fees collected having reached the proud total of Rs.92,945, which is more than twice the amount collected in June 1932, and about Rs. 10,000 in excess of the previous best monthly total. The port is now becoming more and more popular, and a large number of ocean-going steamers are calling at Cochin direct from Europe”.

Nor is it inevitable that divided ownership and jurisdiction should give rise to difficulties in the administration of the port. It is idle to state that Cochin and British statesmanship cannot devise a workable scheme of dual control. Most of the arguments that are now being adduced against Cochin retaining the jurisdiction over the harbour are more imaginary than real. The fear that Cochin will not have the ability to tackle successfully the complicated questions that might arise when the Port develops into a harbour of international importance is without any basis whatever. Cochin has rightly earned the reputation of being one of the most enlightened and progressive states in India. The administration of the State is organised on the British Indian model, its courts administer to a very large extent the laws prevalent in British India, and its judiciary is manned by persons with the same high character, intellectual equipment, and training as in any

province of British India. Even in the middle of the last century Lord Salisbury had to remark in Parliament while presenting the "Report on the Material and Moral Progress of India" that if all Native States were administered as was Travancore by Madhava Rao and Cochin by Shankunny Menon, the British Government would have to look to its laurels.

The picture that the alarmists draw of foreign trading vessels creating trouble in the harbour because of the non-existence of a Cochin navy, need not cause much anxiety either. They forget that foreign ships call at Cochin for trade and not for picking up quarrels to the prejudice of their own interests. Even granting that such things may happen once in a way, Cochin will not be in a worse position than other port-owing Indian States like Travancore, Bhavanagar, Baroda and Navanagar. Cochin will further be fortified in her position, then as now, by the fact that it can count on the moral support of the other two partners, and if necessary on the active assistance of the paramount power which by treaty obligations is bound to render every aid to Cochin in such emergencies. In any case it is to be hoped that pledges given and agreements entered into will be strictly observed and that no pressure in any manner or form will be put upon Cochin to bring about a cession either of jurisdiction or of ownership.

But if by any chance it is found that it is impossible to devise an efficient scheme of dual control or that the inter-national popularity of the port is likely to suffer by a continuance of the present state of affairs, the decision will have to be based on grounds of expediency rather than on the unalterable logic of the arguments advanced above. Questions of expediency enter largely into the affairs of mankind. The genius of England to a very large extent depends upon the ability of Englishmen to compromise and to let what is

expedient prevail. A well-developed and prosperous port is an absolute necessity for Cochin. It is not impossible that circumstances may arise, especially in view of the fact that the three-mile channel leading to the harbour is British, which might necessitate sacrifices on the part of the State in order to secure the best interests of the harbour. If such circumstances do arise, it will be unwise to let the insistence on a few rights and privileges over a small portion of the State's territory, however strong the attachment towards them may be, to stand in the way of the larger interests of the State in the years to come.

On the customs revenue enjoyed by the State and the recommendations of the Indian States Enquiry Committee regarding it, the Diwan of Cochin submitted a memorandum to the third Session of the Indian Round Table Conference. In that memorandum, the case for Cochin is clearly set forth: "Cochin is both willing and anxious to join the Federation; but it would be impracticable for it to do so on the terms suggested by the States Enquiry Committee for reasons based not merely on the history of the port, on the fact that it is situated largely within the boundaries of the State and on the State's treaty rights in regard to it, but also on the actual necessities of administration". The memorandum also rightly points out that the rights of Cochin in the harbour, unlike those of Travancore, are not merely of a commercial nature, that they have a far more extensive basis, and that they depend not only on the agreements of 1865 and 1925 but also upon the State's sovereign rights.

The memorandum further states: "But apart altogether from treaty and sovereign rights, there are practical reasons which render it impossible for the State to surrender its customs revenue if it is to continue to maintain its separate existence. These duties have formed an important part of

the State's income for centuries and, at the present time, are one of the very few elastic sources of revenue which the State possesses. On the other hand, the population of the State has of recent years increased very rapidly and, at the present day Cochin-Kanayanore Taluk, in which the State part of the harbour is situated, is amongst the most densely populated rural areas in the world. The increase in population has inevitably resulted in a corresponding increase in the cost of administration, and there is no reason to suppose that the limit either in population or cost of administration has been reached. On the contrary, there is every likelihood that the further development of the port will result in an even more rapid increase both in population and State expenditure. The port is in fact by no means a pure asset to the State; it is also a considerable liability. For the extreme density of population which exists in its neighbourhood is unquestionably due in part at least to the demand for labour which the trade of the port stimulates. Thus, while it is true that the State obtains revenue from the customs duties collected at the port, it is no less true that a considerable and increasing expenditure on administration is incurred as a result of the port's existence. Were the customs revenue to be surrendered, the State would be left with the liability to provide for a large and rapidly growing population while it would be deprived of one of the very few expanding sources of revenue from which it could meet its inevitably increasing expenditure".

The Cochin Government is quite correct in stating that the surrender of customs revenue would involve as a corollary the termination of the State's existence, for lack of funds to carry on the administration efficiently and that Cochin will have to think twice before entering the Federation on such terms. Compensation in return for relinquishment will not

meet the need for an elastic source of revenue. And the need for an elastic source of revenue is all the more important in view of the fact that the considerable revenue which the Darbar realises from its monopoly of the sale of intoxicants is showing a tendency to decline. The chances are that, as the years go by, and the prohibition movement gets stronger in the State, this tendency will be accentuated still further.

On July 7th, 1933, the Dewan of Cochin submitted another memorandum to the Joint Select Committee. The text of the memorandum is not yet available to the public. But from the Madras Press one can gather that the memorandum dealt mainly with financial questions and that it stressed the importance to the State of the customs revenue from the Cochin port. The Dewan is reported to have pointed out how the acceptance of the Federal Finance Committee's recommendations would involve the extinction of the State as a separate unit and how it would be impossible for Cochin to join the Federation on such terms. He seems to have expressed the opinion that Cochin cannot afford to give up the proceeds of the salt tax and that Cochin would prefer an indirect tax to the proposed Corporation Tax.

The White Paper adopts many of the suggestions of the Davidson Committee and of the Federal Finance Committee presided over by Lord Peel, which was appointed to consider the question of Federal Finance in the light of the Percy Report and the Davidson Report. The scheme of taxation embodied in the White Paper is to be applied in full to the British Indian provinces and as far as circumstances allow to the States-members of the Federation. After examining the Davidson Report the Peel Committee reiterated the view that the entry of each State into the Federation should as far as possible result in its assuming liability for an equitable portion of Federal expenditure. The following passage from

the Peel Report is of special importance to maritime States, like Cochin: "In the case of sea customs, we note that the present annual value of the immunities enjoyed by fourteen maritime States amounts to over 1,80,00,000, and we recommend that the question of extinguishing these immunities by compensation should be left over for consideration after the Federation comes into being. Meantime, however, our general view is that the possession by certain States of an immunity which prevents other States or provinces from making their full contribution to the Federation, is contrary to federal principles. The existing treaties and agreements must be fully observed and no change made in them without the consent of the States concerned. But we recommend that maritime States should retain at the most not more than the value of the duties on goods imported through their ports for consumption by their own subjects".

According to the White Paper the exclusively Federal sources of revenue are import duties (except on salt), contributions from railways and receipts from other Federal commercial undertakings, coinage profits and share in profits of the Reserve Bank. Export duties, salt duties, tobacco excise and other excise duties except those on alcoholic liquors, drugs and narcotics are also Federal. But in their case the Federal Government have the power to assign a share (or the whole) to the Units.

Terminal taxes on goods and passengers, and certain stamp duties are provincial sources of revenue but with power reserved to the Federation to impose a Federal surcharge. Land revenue, Excise duties on alcohol, drugs and narcotics, stamps (with certain exceptions), forests and provincial commercial undertakings, and the miscellaneous sources of revenue at present enjoyed by the provinces are exclusively provincial sources of revenue.

The methods of treatment of taxes on income are as follows: In British India there is at present in force a super-tax on profits of companies which is usually referred to as "Corporation tax". This tax is to be entirely Federal, and federating States have to contribute under this head after ten years. As regards other taxes on income, the net proceeds (other than receipts from the Federal surcharges the proceeds of which are to be retained by the Federation) will be divided between the Federation and the Governor's provinces, an amount not less than 25 per cent. and not more than 50 per cent. of the net proceeds being assigned to the Federation. The provincial Legislatures also can impose surcharges on taxes on personal income of residents in the province not exceeding $12\frac{1}{2}$ per cent. of the rates of taxes on income in force at any time, exclusive of Federal surcharges. Collection in this case, too will be carried out by the Federal Agency but the net proceeds from such provincial surcharges go to the provinces.

There is also a transitory provision by which the Federation can retain for itself a block amount out of the proceeds of income-tax distributable to the provinces. The amount which is to be fixed after investigation is to remain unchanged for three years. Then it is to be reduced annually for the next seven years, so that it may be extinguished at the end of ten years. The programme of reduction can be suspended by the Governor-General after consultation with the Governments concerned if its continuance for the time being would endanger the credit and financial stability of the Federation.

In an ideal federal system, there would be no doubt complete uniformity, if not equalisation of burdens and of benefits. It is equally certain that, as far as possible, existing federal constitutions seek to give effect to this principle. The entry

of a State into the Federation should result in its assuming liability for an equitable portion of federal expenditure. The circumstances, however, in which an Indian Federation has to be created are unique, and the ideal of uniformity or equalisation of burdens and of benefits is not likely to be attained. The anomalies of the present situation have their roots in the past and their existence has to be recognised. It is not reasonable to suppose that a State like Cochin, with much to lose and very little to gain if the suggestions of the Davidson committee were wholly accepted, would be willing to enter the Federation. No useful purpose will be served by a refusal to face facts.

But while saying that an Indian State on acceding to the Federation should not be asked to give up, on grounds of abstract logic, all the concessions and privileges which it has been enjoying for years and which are essential to the State in the interests of its own financial stability, one has also to remember the legitimate demands of British India for a proportionate contribution from the States to the Federal Exchequer, and the innumerable calls that are bound to be made on the resources of the Federal Government in carrying out effectively the tasks of a modern administration. Till now the Indian States have not been contributing anything very material to the requirements of the present Government in India. At the present moment the tributes form the sole contribution from them. A State on acceding to the Federation will have to make a larger contribution, a contribution at least approximately proportionate to that from the provinces of British India, and this cannot but affect to some extent the resources of the State. Are the States prepared to make the sacrifice? On the answer to that question, will depend the future of the scheme for an All India Federation.

The prospects of such a Federation are not to-day as bright as they were during the first few days of the first session of the Round Table Conference. It is true that many of the more important States still adhere to the idea. But the present attitude of a good number of the States is far from reassuring. The Federal Constitution sketched in the White Paper is to be brought into existence only after the Rulers of States "representing not less than half the aggregate population of the Indian States and entitled to not less than half the seats to be allotted to the States in the Federal Upper Chamber, shall have executed Instruments of Accession".

Under these circumstances Cochin should explore every avenue to come to some workable arrangement on the financial questions. Such a course is essential to-day not only in the interests of Cochin but of the whole of India. Cochin must be prepared to make every *reasonable* sacrifice for the privilege of being a party to the inauguration of an All India Federation and for the chances of playing an important part in a unified and federal India.

Printed at The Vidya Vilasam Press, Ernakulam.