

# Over-much Experimenting"

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Theory and Working of Union Finance in India by R N Bhargava, Allen and Unwin, London 1956.  
Price 30s

NOW that there has been time for the teething troubles of the Indian constitution to work themselves, there was need for a good straightforward description and Appraisal of the functioning of its financial provisions. This need has very largely been supplied by Professor Bhargava's Theory and Working of Union Finance in India. The book will be of great convenience to Indian students, and can also prove a useful introduction to outside enquirers seeking either to know something of Indian affairs, or having a general interest in the principles and practice of federal finance, to which the Indian Constitution makes a most interesting contribution.

Prof Bhargava covers a wide field in a modest compass. The most interesting sections are those dealing with the financial relations between the Union and State Governments, but Prof Bhargava also has useful and well balanced things to say concerning the choice of particular taxes. The chapters on expenditure which complete the book do not attempt much more than a summary description, without argument, and are useful mainly as a handy source of basic figures.

The theory to which Prof Bhargava pins his faith is essentially the familiar marginal principle of attempting to balance the "marginal sacrifice" implied in taxation with the "marginal returns" from public expenditure, and among types of public expenditure of one type with another. This is the approach which derives mainly from Edgeworth and has been most elegantly expounded by Prof Pigou. To hold firmly to this principle is a good basic guide to policy, and incomparably better than acknowledging no principle at all, beyond perhaps a vaguely defined "national interest"; but in modern practice it suffers from two shortcomings unless it is very carefully defined. On the one hand, it is too static in that it pays little or no attention to the development over time of the effects of different sorts of taxes and expendi-

tures. In a country which is changing as rapidly as India today this is a particularly important aspect of public finance, which it would be rash to neglect. On the other hand, this essentially "partial equilibrium" or micro-economic analysis needs to be integrated with a "general equilibrium", or macro-economic analysis of the aggregative effects of taxation and expenditure, both directly, and indirectly as they influence the actions of entrepreneurs or consumers. It is true that before aggregative effects can be successfully evaluated a breakdown into partial effects must also be available, hence it is necessary at the first stage to examine the working of individual taxes and expenditures, but this is only a first stage.

One of the most useful sections of Prof Bhargava's book (as has been indicated) is that dealing with grants from the central Government to the States, (contained in Chapters V and VI). Starting with an examination of experience with different sorts of grants (unconditional, fixed ratio, ratio varied according to some measures of need in other federations) the discussion proceeds to evaluate the grants made by the Government of the Indian Union. The judgment is, that while a number of these are used on the whole they are not sufficiently equalising as between rich and poor areas, especially where it is made of the "derivation principle", as in sharing the revenue of certain taxes. In general since the grants have grown up piecemeal and haphazard, they exhibit a good deal of contradiction in their effects.

Prof Bhargava would like to see an Independent body, similar to the Australian Grants Commission, work out an integrated grant structure. Since in India the Finance Commission already dealt with part of the field in their allocation of income tax revenue, the most sensible plan would seem to be to extend their terms of reference as far as seemed desirable in this direction. Besides the grants already in use in India there seems to be a else for increas-

ed emphasis on promotional grants; one example would be to extend grants to States, to be applied to urban housing through the local government authorities in the way in which they are now available to entrepreneurs for industrial housing. Although at present a few cities are struggling against fearful odds to control their slums, on the whole this subject is far too neglected. The time is also drawing near when it should be possible to make use of more refined measures of need in India when differential grants are in question. In this connection the use of a "unit cost" basis (which has been widely advocated in the U K might be considered for such services as education and public health,

It could not be expected on the tax side that Prof Bhargava's crystal gazing would take him up to the innovations of the recent budget; but it is a pity that we do not have his comments on them. It may be suspected that he would subscribe to the doctrine that holds that better administration of existing taxes will yield higher dividends than over-much experimenting. Prof Bhargava has however put his finger on one important black spot in the Indian tax system: the failure to extract an adequate revenue from land incomes. In a country with such a preponderant agricultural sector this failure has contributed in no small measure both to the present difficulties of the revenue and to the inadequacy of urban food supplies.

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