

1936

88178

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CO 533/471
KENYA

88178

6

Report of the Financial Commission

Representations by the Elected Members Organisation

Previous

Subsequent

~~See Summary~~
38002/2/35

P. 297 16/10/36 22/11

Mr. Gaskin 16/10/11

R. 297 17-11

Mr. Phelan 17-11

Sir C. Bottomley 18

Sir J. Macpherson 18/11

C. D. 29

~~See Summary~~ 23/11

Mr. Frost 23

R. 297 30/11

R. 80 30/11

R. 297

Finance

1 Record of interview with Major Cavendish Bentinck at which he presented an advance copy of a letter to be addressed to the Supt. relating to the implementation of the Pim Report

- 2. Governor No.526.----- 8.10.36.
Transmits memo. received from Lord Francis Scott on behalf of the Elected Members Organisation, on certain aspects of the Pim Report, and comments on the various points raised.
- 3. SIR J. BYRNE (S/O TO SIR C. BOTTOMLEY)..... 31.10.36.
States that a letter from the Elected Members was sent to the S.O. by Air Mail without comment: these will follow.
- 4. GOV. KENYA..... 575:..... 31.10.36.
Trs. letter addressed to S.O. by Lord Francis Scott, together with a copy of a covering letter signed by the Earl of Errol and states that a despatch commenting thereon will follow by the next airmail.
- 5. COL. SEC..... 3. N..... 3.11.36.
Requests that Kenya despatch, No.122(4) be renumbered No.575. **DESTROYED UNDER STATUTE**
- 6. GOV'S DEPUTY (WADE)..... CONF.124..... 3.11.36.
Forwards observations on encls(4)
- 7. GOV. KENYA..... TEL. (P.&P)..... 15.11.36.
States that as the encl. to (4) has been published locally an early and definite reply suitable for publication would do much to clear the air and put a stop to obstructive tactics now being adopted.

Done

R.297
16.11.36.

Orig. 5/11/36
575

I have had a copy of the Governor's telegram attached to this file in view of its last paragraph. As the Governor says, a reply is now required to the letter from Lord Francis Scott enclosed in No.4. The comments on it are to be found in No.6 which should I think be read. It is quite clear from the despatch how facts are distorted and misrepresented. Government have never had any intention of departing from ordinary procedure in regard

regard to the Estimates (^{they will} what we call the budget in Kenya), or in regard to the proposed legislation. The ordinary procedure was always intended and will be followed. It appears from paragraph 5 of the despatch that the Government proceeded to make this as clear as they could, and yet Lord Francis Scott repeats the mistaken version.

It is the case that it is now contended that Government has faked the Estimates of Revenue so as to keep them on the low side. Two years ago when the Elected Members were shouting for economy, they accused the Government of faking the Estimates the other way round. The fact is that the Estimates have been prepared as usual carefully and cautiously, and if more revenue is realised than was estimated owing to better trade conditions, so much the better. In that event there will be no fear of a deficit.

The old story about the alternative taxes being emergency measures is trotted out once more. It is perhaps hardly necessary to point out that there was nothing emergency about them. To introduce an income-tax can never be an emergency measure and the alternative taxes were put up as an alternative

to

to income-tax to which the "people of Kenya" declared themselves opposed. Lord Swinton said that when you had two choices, the one which people seemed to prefer was the one to adopt. This particular performance has been dealt with in the despatch No. 837 of the 22nd October.

Of course the idea of convening an inter-territorial conference to consider the proper ratio of direct to indirect taxation is a device to gain time. It was never trotted out in 1932/33 and it is so transparent a device that I wonder it had been put forward. Sir Alan Pim has recommended the imposition of income-tax: the Government of Kenya is prepared to adopt the recommendation, and the other territories are ready to co-operate, as we know, and are being invited to make an announcement to the effect that they are so willing.

As a last resort Mr. Calder's pronouncement at Geneva is being used as an argument. But it is not a very good argument. Mr. Calder was stating the obvious fact that Tanganyika had not been particularly anxious to impose income-tax and did not think it advisable to do so if Kenya and Uganda did not. Anyhow they ^{will probably} would have to do it, though it is interesting to note that Kenya does not see any particular reason for legislation in Tanganyika and Uganda. This would not appeal to Sir Humphrey Leggatt.

It is a matter in which Sir H. Leggatt is specially likely to advise. Lord.

An

X

An interterritorial commission is simply nonsense. Circumstances differ widely in the three territories, as Kenya are always pointing out when it suits their book, and the ratio of direct to indirect taxation must depend on the circumstances of each territory. For instance, if you have a community where everybody is prosperous and going in for overseas trade in large quantities, there is no need for direct taxation at all, as was ~~manifestly~~ ^{abundantly} manifested in the Gold Coast and in Southern Nigeria in the old days. Direct taxation in Africa has always been a refuge of the revenue collector in order to extract money from a self sufficient and self-contained population, or, as in the case of Northern Nigeria, to raise some money at all with which to run the place.

Draft herewith. It is not a very soothing one but it is true.

J. S. G. Flood
17.11.

* Sir H. Lugard has told me this afternoon that Reuters have had a telegram stating that a memorandum in favour of a commission is being sent to the S. of S. Reuters may be a fortnight or more out of date, or there may be another letter in store. Sir H. Lugard drew the moral that we ought

ought at once to get out an announcement about income tax all round, but I think we must wait for a cable to the telegrams sent yesterday

I submit that Flood's oft.

WCS
17.11.36

Mr. Flood's draft is an excellent statement of the case and it is in a case which requires plain speaking at this stage. I shall like to hear your Government's views on this.

I agree. The sooner it goes the better and I had better ripen the despatch with my own hand.

WCS 8.11.36

The S. of S. signed the despatch which leaves today
8.25.11.

By Air Mail. 8 To Gov. 934

19th Nov. 36.

Resp-75

C. O.

38173/6/36 Kenya

Mr. Flood. 17 /11/36.

Mr.

Mr.

Sir C. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley 17 11'

Sir J. Shuckburgh. 19.

Permt. U.S. of S. 18/11

Parly. U.S. of S.

X Secretary of State. 18.11.36

Downing Street,

AIR MAIL 19 November, 1936.

Sir,

DRAFT.

KENYA.

NO. 934

GOVERNOR.

(4)

I have etc. to acknowledge the receipt of your despatch No. 575 of the 31st^{of} October in which you enclosed, for my consideration, a letter addressed to me by Lord Francis Scott with a covering letter from the Earl of Errol.

2. I request that you ~~would~~ ^{will come} inform ^(to be informed) the Elected Members that I have received and considered their letter; that I have already stated that I am in general agreement with the

recommendations

writing
on behalf of the
European Elected Members,
together

FURTHER ACTION.

recommendations of Sir Alan Pim's report, though I have no desire to fetter discussion and provoke criticism, or to seek to make it appear that I had given final decisions on matters so closely affecting the Colony and Protectorate of Kenya, without waiting for the views of the Government. I understand that the procedure which is being followed in connection with the Estimates for 1937 is the ordinary procedure which is invariably followed under the Standing Orders of Council by which the Estimates will be considered by the Standing Finance Committee. As regards the proposed income-tax legislation, I understand that, in accordance with the usual procedure,

G. O.

Mr.

Mr.

Mr.

Sir C. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT.

FURTHER ACTION.

if the proposal to introduce it is endorsed by the Standing Finance Committee, shall proceed in the ordinary way and

it is your intention that this legislation after passing its second reading - if it was passed - should be referred to a ~~Committee~~ Committee of Council in accordance with the normal procedure. I further understand that you have never stated that it was Government intention merely to have the Estimates discussed by the Standing Finance Committee without taking any action in regard to the draft legislation which has been published for information in the Gazette.

3. It is happily the case that the financial position of Kenya shows ^{some} signs of improvement, but it is necessary to be cautious in the preparation of the Estimates, especially

especially on the revenue side, and

I cannot think that excessive caution

has been shown in this regard. It

will be within your recollection that

on previous occasions Government has

been accused of framing the revenue

estimates in an unduly favourable light

in order to discuss ^{give} the real financial

position. I see no ^{more} reason to assume

that the Estimates for 1937 have been

deliberately ^{unduly} prudent as regards revenue,

then to assume that the Estimates two a few

years ago were ^{deliberately} inflated. If

the financial position does improve

substantially, then Government will be

in a position to set aside funds from

which the development of the country

may hereafter be financed and which

will provide a source from which to

C. O.

Mr.
Mr.
Mr.

Sir C. Parkinson.
Sir G. Tomlinson.
Sir C. Bottomley.
Sir J. Shuckburgh.

Perm. U.S. of S.
Publ. U.S. of S.
Secretary of State.

DRAFT.

FURTHER ACTION.

any
draw in the event of a sudden setback,
due to a fall in agricultural prices, or depreciation by courts
I have already, in my

or other unforeseeable causes.

despatch No.837 of the 22nd October,

dealt with the suggestion that my

predecessor in 1963 was intending to

constitutional
lay down a general principle to the

effect that the unofficial European

community had the right to select the

taxation which it should pay, and I

do not wish to enlarge further on

that topic. I think it well, however,

to point out that it is incorrect to

refer to the taxation which was

introduced in substitution for income-

tax as "emergency taxation". It must

be remembered always that those taxes

were a substitute for income-tax.

than the income-tax proposals were

being

(to Council)

being submitted and were under consider-

ation, there was no suggestion that it / Income Tax

was in any way a temporary or emergency

measure. It accordingly follows that the

alternative taxation which replaced it

could not properly be described as

emergency or temporary. It is now

considered by those who are in the best

position to judge that income-tax is ^{far}

preferable to the ^{continuation} contingents of the

alternative taxes, and I have accepted

that view. Indeed I am ^{personally} convinced that the introduction of Income Tax is necessary & desirable in the interests of the Colony.

5. With regard to the suggestion

that income-tax will fail in its purpose

if it is applied in Kenya alone and not

in the adjoining territories, I have

already been in communication with you.

I understand that the territories of

Uganda

C. O.

Mr.

Mr.

Mr.

Sir C. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh.

Perm. U.S. of S.

Parly. U.S. of S.

Secretary of State

Uganda and Tanganyika, as well as

Zanzibar ~~Somaliland~~, will be fully prepared to

take whatever action may be necessary

to prevent any evasion of the tax by

persons or companies resident in

Kenya. I am corresponding with you

separately on this point and it is

not necessary for me to say any more

in this despatch.

6. The appointment of an inter-

territorial commission to report upon

the proper ratio of direct to

indirect taxation ~~can only be regarded~~

as a somewhat ^{transparent} obvious device for ~~to cause~~

delaying matters. It cannot be

contended that conditions are the

identical ^{various} ~~same~~ in the territories in East Africa

which are affected: and it must be

obvious

DRAFT.

Could only be delay matter without producing any useful result.

FURTHER ACTION.

obvious that the proper ratio of
direct to indirect ~~taxation~~ is not
a matter which can be settled for
different communities, or indeed for
the same community in different
circumstances, in the same way. I do
not see that such an inquiry could
serve any ~~useful~~ purpose, ~~whatever~~ E

~~request that you will cause this~~

~~despatch to be communicated to~~

~~Lord Francis Scott,~~

I have, etc.

7 I have no objection to the
publication of this despatch
~~of the 17th inst.~~

(Signed) [illegible]

Orig to be registered as 38173/5/36

Telegram from the Governor of Kenya to the Secretary of State for the Colonies.

Dated 15th November, 1936. Received 11.21 a.m., 15th Nov

Private and Personal.

4 on 38173/5/36 Your private and personal telegram of 12th November. Like you I am most anxious that Natives should get relief without delay but it would be unfair to you if I did not point out the local snags.

Standing Finance Committee's views were contained in Walsh's Memorandum enclosed in my despatch No. 526 of 8th November.

Might I suggest the following compromise for your consideration. That you should now inform me that it is definitely the desire of His Majesty's Government, that Native taxation relief recommended by Pim should be granted commencing with the raising of age with effect from the 1st January 1937. That the question of hut tax relief be examined during that year with a view to introduction in 1938. When the financial effect of raising the age has been approximately ascertained a report to be sent to you when you will consider Pim's recommendations about borrowing should such a found necessary.

Encl. to (4) Francis Scott's letter to you of 31st October will I think show you the futility of pandering any further to the European Elected Members. As this letter has been published locally an early and definite reply suitable for publication would do much to clear the air and put a stop to obstructive tactics now being adopted.

AIR MAIL

KENYA

No. 124

RECEIVED

14 NOV 1936

C. O. REG



GOVERNMENT HOUSE

NAIROBI

KENYA

6.10

CONFIDENTIAL.

5 November, 1936.

Sir,

17 on 38173/36
(2 lines)

With reference to your despatch No. 795 of the 8th October, 1936, on the subject of Sir Alan Pim's Report on the Financial Position and System of Taxation in Kenya, I have the honour to state that I have been instructed by Sir Joseph Byrne to offer the following observations on a letter dated the 31st October and addressed to you by Lord Francis Scott, of which a copy has already been transmitted to you under cover of the Governor's despatch No. 575 of the 31st October, 1936.

4

2. Paragraphs one and two of Lord Francis Scott's letter call for no comment, since the first concerns a previous letter, dated the 26th September, with which Sir Joseph Byrne has already dealt in his despatch No. 525 of the 8th October, and the second is a quotation from the communique issued locally in accordance with the instructions contained in your telegram of the 17th October.

2

3. The third and fourth paragraphs of the letter amount to no less than a complete distortion of facts.

8 on 38173/2/36
(2 lines)

In view of your decision conveyed by telegram on the 30th September the Income Tax Bill with the necessary concomitant legislation, was published for introduction into the Legislative Council, in a special edition of the Official Gazette dated the 3rd October, 1936. The publication of the Bill was a necessary preliminary to

the/

Regd. on 38054/1/36

THE RT. HON.

W. CRAMBE GORE, P.C., M.P.
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET, LONDON, S.W.1.

the presentation of the Draft Estimates for 1937 incorporating provision for the introduction of Income Tax. It would obviously have been unreasonable to seek the approval of the Legislature to these Estimates without affording some details of the taxation measures on which they were based.

I am unaware, however, of any original indication that these measures would be introduced or considered contemporaneously with the Budget. It was apparent, indeed, that the publication of the Bill in the Official Gazette had been misconstrued, and, in consequence, the Governor invited Lord Francis Scott and Captain Schwartze as the representatives of the Elected European Chamber to a meeting with myself on the 16th October with a view to dispelling this misunderstanding. The conclusion of this discussion, which Lord Francis Scott records as an agreement, was that the Draft Estimates for 1937 would follow their normal course. I attach a copy of a letter which with the advice of the Executive Council, the Government authorised me to address to Lord Francis Scott after the meeting.

4. Sir Joseph Byrne strongly deprecates the statement: "an agreement was reached whereby the intention of Government was restricted to the submission of the Draft Estimates to the Standing Finance Committee". Government accepted no restrictions other than those imposed by the standing procedure of the Legislative Council whereby, after the presentation of the Draft Estimates, they are referred without delay to the Standing Finance Committee for a detailed examination and a report. Except possibly in the event of grave emergency it would not appear desirable or politic to introduce legislation imposing any drastic alterations in the main forms of

taxation in advance of the acceptance by the Legislative Council in principle of the proposed alterations. When alterations are proposed towards the end of any year it is therefore normal procedure that they should be considered in principle in the first instance in connection with the budget for the forthcoming year.

5. Owing to the fact that misconstruction was placed in the local Press on the letter conveying the result of the meeting to which I have referred, a further explanation of the position was given verbally by me as Colonial Secretary on the 17th October to the Editor of the East African Standard and was made public in the issue of that newspaper of the 20th October. The explanation was to the effect that the Government of Kenya proposed to follow normal procedure, as had always been their intention. This explanation was accepted without cavil, and I am therefore at a loss to understand the grounds on which Lord Francis Scott now seeks to revive the misapprehensions.

6. In the next succeeding paragraph of his letter Lord Francis Scott suggests that, as a consequence of an over-conservative estimate of revenue to be derived from indirect sources, and the incorporation of provision in respect of capital accumulations, the Draft Estimates for 1937 do not reflect a true picture of the financial position for that year.

I am advised by the Treasurer, as regards the first criticism, that the Revenue Estimate is based on a prudently optimistic forecast of 1937 trade conditions, and that the suggestion that they conceal a large surplus on the year's workings is untenable.

7. The second reference to proposed "capital accumulations" is, it is presumed, mainly in consequence of the introduction into the expenditure side of certain items totalling £14,000 in respect of various Water

Little value would appear to attach to this argument derived from a Report on the finances of another Colony, particularly in view of the fact that Sir Alan Fin, in paragraph 384 of his Report on Kenya has specifically recommended Income Tax, and in paragraph 385 has stated:

"The working of the Tax would obviously be greatly facilitated if a similar tax were imposed in the two adjacent Territories, but this is a question for decision of their Governments. The tax should not be incapable of operation even if Kenya stood alone in introducing it."

10. I understand that the main grounds for apprehension are stated to be the difficulty of ensuring the collection of Income Tax from all companies operating in Kenya, and the adverse effects which a tax on earnings would have on Kenya registered companies in relation to companies registered in Uganda and Tanganyika Territory. My attention has, however, been invited to the possibility of misconstruction of a statement attributed to Mr. J. A. Calder in Press reports of the Meeting of the Permanent Mandates Commission at which the Tanganyika Annual Report for 1935 was considered. This statement is reported as follows in the issue of the "East Africa and Rhodesia" dated the 1st October, 1936:-

"M. Rappard was not entirely convinced by reasons given for the abandonment of the proposed Income Tax, and asked if the decision was final.

Mr. Calder said the extra staff required for collecting the tax would be disproportionate to the revenue obtainable, but M. Rappard thought the cost would not be very great compared with the Native tax levied on hundreds of thousands of people.

Another reason, Mr. Calder said, was the decision not to impose the tax in neighbouring territories, as, if Income Tax were levied in Tanganyika and not in neighbouring territories, capital would be deterred from entering Tanganyika, and firms would establish themselves in other territories."

I am advised, however, that the obstacles to enforcing the tax have been greatly magnified. In this connection the Treasurer and Attorney General have advised that any

Company operating in Kenya must register in the Colony and that it then comes within the scope of the Income Tax Bill. My advisers therefore are of the opinion that there is no necessity at this juncture to ask neighbouring Governments to pass special legislation to avoid the possibility of evasion. If, however, in the course of 1937 it transpires that some measure of active co-operation with the neighbouring Governments is necessary then the question will be reopened with the adjacent Territories.

In this connection I would add that a verbal assurance has already been received from the Governors of Uganda and Tanganyika Territory that their Governments will co-operate, if the necessity arises, by the introduction of special legislation.

11. It is apparent from Lord Francis Scott's proposal regarding the appointment of an Inter-Territorial Fiscal Commission that the underlying suggestion is that the introduction of Income Tax would be conditional on the findings of such a Commission, if appointed.

Apart from the fact that Sir Joseph Byrne cannot but believe that this suggested delay is part of a policy of intentional obstruction, he desires me to emphasise most strongly his belief, which he has expressed on several occasions since 1931, that Income Tax is the only means to ensure financial stability in Kenya, and that its substitution for the existing unsatisfactory piecemeal taxation should not be delayed longer than is absolutely necessary to ensure a fair examination of the legislation through which it will be applied.

In this connection reference is invited to paragraphs 7 to 9 of the Governor's Confidential despatch No. 119 of the 15th September, 1935, in which he suggested that Sir Alan Pim should advise regarding the retention of

3 on 38173/35

the Alternative Revenue Measures, introduced during 1933, before any general review of the fiscal system took place.

12. On the unanimous advice of Executive Council, given to Sir Joseph Byrne on the 31st October, I have to inform you that, should the majority of the Standing Finance Committee report in favour of Income Tax, it is proposed that Government should proceed to pass the Income Tax Bill, already published for introduction into Legislative Council, in sufficient time to ensure its application in 1937; subject, of course, to any amendments that might be made in Select Committee.

All members of Executive Council view the possibility of any retreat by Government from the position which has been taken up on this question with feelings of apprehension, especially in view of the fact that this position is based on equity and an honest belief that without the introduction of Income Tax the financial stability of the Colony cannot be permanently assured.

I have the honour to be,

Sir,

Your most obedient, humble servant,



GOVERNOR'S DEPUTY.

16th October, 1930.

Sir,

As it seems that the situation in regard to Government's proposals for the introduction of some reorganisation in the methods of direct taxation is not clearly understood, and in view of the representations made to the Governor by yourself and Captain Schwartz on behalf of the European Elected Members at an interview with His Excellency this morning. I am authorised by His Excellency to inform you that although the Income Tax Bill and the Non-Native Poll Tax Bill have been published with a view to introduction into Legislative Council, this publication does not mean that Government intend to introduce them without the fullest consideration. The proposals are at present pending the Report of the Standing Finance Committee to whom they will be referred for examination, under Standing Rules and Orders of Legislative Council, and the consideration of their Report by Legislative Council. The Standing Finance Committee is considered by Government to be the proper body to conduct the investigation which is understood to be generally desired.

I have the honour to be,

Sir,

Your obedient servant,

(sd.) A. de V. Wade,

COLONIAL SECRETARY

THE CHAIRMAN
THE EUROPEAN ELECTED MEMBERS' ORGANISATION,
NAIROBI.

AIR MAIL

KENYA

No. 122

575

(See No. 5)



18
GOVERNMENT HOUSE
NAIROBI
KENYA

RECEIVED

9 NOV 1936

C. O. REGY

31st October, 1936.

Sir,

I have the honour to enclose herewith a letter addressed to you by Lord Francis Scott, Chairman of the European Elected Members' Organization together with a copy of a covering letter signed by the Earl of Erroll.

2. As these documents were only received just prior to the closing of the Air Mail it has not been possible to comment on the views expressed by the Elected Members. A considered despatch will, however, follow by next Air-Mail.

I have the honour to be,

Sir,

Your most obedient, humble servant,


BRIGADIER-GENERAL
GOVERNOR.

THE RT. HON. W. ORMSBY-GORE, P.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
COLONIAL OFFICE,
DOWNING STREET, S.W.1.

(COPY)

ELECTED MEMBERS ORGANIZATION.

P. O. Box 825,
Nairobi.

31st October, 1936.

Ref: No: E/G.I.

The Hon'ble,
The Colonial Secretary,
The Secretariat,
LONDON.

Sir,

I have the honour to forward to you a letter, in quadruplicate, signed by Lord Francis Scott as Chairman of the Elected Members' Organization, which I shall be glad if you will be good enough to transmit to the Secretary of State for the Colonies through the usual channels.

I have been asked to state that Elected Members would be glad if this letter could be sent by the next air mail.

I have the honour to be,

Sir,

Your obedient servant,

(Signed) ERROLL.

Secretary.

ELECTED MEMBERS ORGANIZATION.

P. O. BOX 825.

NAIROBI,
KENYA COLONY.

October 31st. 1936

TELEPHONE: 2998.

TELEGRAMS: "SETTLEMENT".

REFERENCE NO.

**The Right Honourable
The Secretary of State for the Colonies,
Through His Excellency the Governor of the Colony
and Protectorate of Kenya.**

Sir,

I have the honour to inform you that I have been requested by the European Elected Members of the Kenya Legislative Council to amplify their views (as expressed in my letter of September 26th) in the light of subsequent political developments.

2. We have been informed by His Excellency the Governor that you are "of the opinion that Sir Alan Pim's recommendations are generally acceptable and ought to be adopted as a whole", but that "this opinion is necessarily based on information at present available to you, and is subject to such reconsideration as discussions in Legislative Council and further examination may indicate to be necessary."

3. The procedure originally indicated was the laying of Draft Estimates for 1937 based upon the contemporaneous introduction of legislation purporting to convert certain additional temporary direct taxes (accepted by the community to cope with a budgetary emergency) into a permanent additional system of direct taxation on the passing of the emergency. Practically unanimous opposition to this procedure has been expressed by Resolutions passed at public meetings throughout the Colony.

4. On the welcome initiative of the Colonial Secretary, an agreement was reached whereby the intention of Government was restricted to the submission of the Draft Estimates to investigation by the Standing Finance Committee without prejudice to the method whereby the estimated expenditure could be covered, and it was agreed that the whole question of the revenue measures necessary to balance the budget should be considered as sub judice.

5. There are therefore two distinct issues before the country:-

(a) To what extent and in which direction, if any, can existing taxes be reduced without risk to 1937 budgetary stability?

(b) Whether or no the normal ratio of direct to indirect taxation should be modified and if so by what method?

6. In respect of issue (a) Elected Members reiterate that they are insistent that the rehabilitation of the agrarian and interwoven interests must take precedence over the accumulation of large surplus balances. They believe that the Levy on Civil Service Salaries and the more onerous

features of the other emergency direct taxes should be eliminated *pari passu*. They submit that the Revenue Estimate for 1937 (£3,436,322) compared with the Actual Revenue for 1935 (£3,304,026) and the Revised Estimate for 1936 (£3,453,376), even allowing for the abolition of the Civil Service Levy (£47,000), is more than excessively conservative, and does not conform with the heartening citation of spectacular progress elaborated in His Excellency's address to Legislative Council or the positive indication provided by the rapidly accumulating Railway Surplus. They suggest, therefore, that the Levy and the more onerous features of the emergency direct taxes could now be removed in the belief that increasing revenue from normal sources stimulated by the relief from these direct taxes will assure budgetary equilibrium, more especially as there are substantial sums defined as expenditure which are in fact capital accumulations.

7. In respect of issue (b) Elected Members recall the following general principles laid down by Lord Swinton when Secretary of State for the Colonies upon which they rely and which were as follows:-

"In forming an opinion between one system of taxation and another it is seldom useful or practical to compare them in the abstract. It may be claimed for Income Tax that assuming it could be applied effectively to all Income Tax payers, it is the most scientifically and equitably adjusted form of direct taxation. But the operation of any system of taxation can in fact only be tested by experience, and this is particularly true when a new system is being applied in a field hitherto untried. When, therefore, a decision has to be taken as between two fresh systems, the test of experience is denied to us except in so far as a comparison is possible with similar systems working under similar conditions. In such circumstances the practical course is to try to find the system which appears most likely to conform to the following practical tests. The system must yield an adequate revenue: that revenue must become available at the earliest possible moment: and when the choice lies between alternative means of taxing particular sections of the community that method is to be preferred which is the more acceptable to those upon whom the tax is to be levied."

8. They are unanimous in their conviction that a system of Income Tax could not be effective unless it is applied to the entire economic area which comprises Uganda, Kenya, Tanganyika and Zanzibar, and wish to stress their belief that any territorial implementation of Income Tax would tend to re-establish Zanzibar or to establish any exempted Territory, as the headquarters of commercial houses operating throughout the East African zone and intending to evade the incidence of the tax.

Sir Alan Pim, in Section 383 of his Report, points out the many local difficulties in framing a practical Law more especially a Law "that will not become a tax on capital or a serious obstacle to development", and in Section 301 of his Report on the financial position of Zanzibar, writes:-

"I have considered the alternative of a general Income Tax but do not consider it practicable in the circumstances of Zanzibar. In the first place agricultural income would have to be excluded as already

subject to the very heavy clove duty, and moreover exceedingly difficult to ascertain. In the second place a large proportion of the tax would fall on the Indian commercial community. An Income Tax can be imposed on them as Indian practice has shown, but even after the long experience of the working of the tax in India, evasion is extensive and Zanzibar has no officials with the special qualifications and knowledge required for dealing with Indian accounts. The Income Tax levied in Kenya in 1921 had to be abolished within two years though it's administration was under the direction of an officer seconded from the Inland Revenue Department in England. The Tanganyika Government has also taken the view that an Income Tax is unworkable."

This is formidable support to a strong body of opinion which genuinely believes that the difficulties in framing a Law which will yield material net revenue without prejudicing capital restoration and development, and involving inequitable incidence is more difficult than is generally realised.

Elected Members therefore earnestly request that an Inter-Territorial Commission be appointed without delay to consider and report upon the proper ratio of direct to indirect taxation, and the measures whereby such ratio should be effected with special reference to the applicability of a system of Income Tax to the peculiar circumstances of the Territories concerned; and that "the particular sections of the community upon whom the tax is to be levied" should be adequately represented by Members from the four Territories.

The conclusions of such a Commission would bring finality to this recurrent issue without sense of duress and Elected Members engage themselves to work in every possible way towards a final agreement.

9. Elected Members are earnest in their desire to bring the current political strife, dissatisfaction and suspicion to an amicable conclusion. They are anxious that the whole energies of the community should be concentrated upon a co-operative attempt to solve the urgent national problems of agrarian reconstruction and defence. They believe that acceptance of the principles which inspire the above suggestions would immediately achieve the desired result.

I have the honour to be,

Sir,

Your obedient servant,

James Scott

CHAIRMAN.

PERSONAL & PRIVATE.

AIR MAIL.



RECEIVED

10/10/36
G.O.F.

GOVERNMENT HOUSE,
KENYA.

EAST AFRICA
31st October, 1936.

My dear Bottomley,

Council adjourned yesterday morning having polished off a great deal of the non-contentious work. We meet again on Wednesday when the Motion to refer the Estimates to the Standing Finance Committee will be taken. The debate should last for two or three days as I'm sure all the unofficers will speak and many of them will talk for over an hour. After the debate the Council will adjourn indefinitely until the Report of the Standing Finance Committee is ready.

At this morning's meeting of Executive Council the political situation was fully discussed. It has become clarified partly owing to my Budget speech.

The plan of campaign both in London, through Cavendish Bentinck, and here is to block Income Tax (a) by pressing for delay and (b) by juggling with the Estimates with a view to proving that owing to the prosperity anticipated during next year the emergency taxes and the levy can safely be removed without the necessity for any alternative direct taxation.

As.....

2.

As regards (a). None of us could see why Pim's recommendation regarding Income Tax should await a general enquiry into indirect taxation which may take years and which we think Kenya would be ill advised to press for at the present time. The other Territories and the Indians here are simply waiting to pounce on us over many of the protective duties, etc. The substitution of Income Tax for the present unsatisfactory Taxes is a straight issue and should be settled on its merits with the least possible delay.

As regards (b). This I fancy is prompted by Grogan and it is in my opinion a wicked move. The Estimates have been most carefully prepared after close investigation by the Heads of Departments, especially the Customs Department. They are of course always subject to reasonable alteration but to press for any radical change merely for political motives or to escape taxation is surely not in the best interests of the Colony.

If ever a Colony wanted conservative budgetting it is Kenya. Our cash position is not too secure; we have practically no reserves and we have many deferred

liabilities....

4
GOVERNMENT HOUSE,
KENYA,
EAST AFRICA.

3.

liabilities as is explained in Walsh's memorandum enclosed in my letter to you of the 3rd October.

Finally after this review of the situation I asked each member of Council individually for his advice as to what he considered the right course for Government to adopt. Without exception each member expressed the opinion that we should move for the adoption of the Majority Report of the Standing Finance Committee and when adopted introduce the required taxation measures.

It was unanimously agreed that any wavering now would be fatal and would cause considerable unrest in the Colony, especially among the poorer classes, e.g., the Indians.

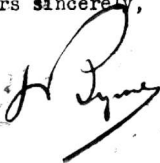
As I was leaving the Council Chamber a letter from the Elected Members was handed to me. Its content confirm the views expressed in Council. This letter was sent to the Secretary of State by this Air Mail without comments: these will follow by next mail.

As....

4.

As far as I can see the country at large is apathetic
over this Income Tax question. What they want is to get
it settled. They tried to have a public meeting in
Nairobi lately but only 7 persons turned up!:

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'H. P. Jones', written in dark ink.

Sir W.C. Bottomley, K.C.M.G., C.B., O.B.E.
The Colonial Office.
LONDON. S.W.1.

AIR MAIL

KENYA
No. 526



GOVERNMENT HOUSE
NAIROBI
KENYA

15
2

8 October, 1936.

RECEIVED
19 OCT 1936
C. O. REGY

Sir,

With reference to your despatch

(16) 29175/36 Nairobi

No. 791 of the 17th September, 1936-I have the honour to transmit for your consideration a Memorandum signed by Lieut. Col. the Hon'ble Lord Francis Scott, D.S.O., Chairman of the Elected Members Organisation, on the subject of certain aspects of Sir Alan Pim's Report.

2. I have no comments to offer on the first four paragraphs of the Memorandum since they refer to a matter which would no longer appear to be open to discussion, namely the Terms of Reference which formed the basis of Sir Alan's recommendations. The latter paragraphs would however appear to call for certain comment.

3. As is stated in the Memorandum the Treasurer, at a recent meeting of the Standing Finance Committee, expressed the view that the working of the year 1936 would shew a surplus of £100,000. Of this estimated surplus, however, a sum amounting to nearly £50,000 will have been derived from the levy on official salaries, the continued imposition of which during the year was authorised...

THE RIGHT HONOURABLE W. ORMSBY GORE, P.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET,
LONDON, S.W.1.

38095/35 (7)

authorised in your telegram No. 329 of the 13th November, 1935. This revenue item cannot be regarded as forming a part of the fiscal system of the country. To this extent, therefore, the surplus of £100,000 if realized will be adventitious.

4. Despite the exercise of a rigid economy in the preparation of the Estimates for 1937 it has been necessary to make provision for essential expenditure, additional to that appearing in the Estimates for 1936 of a sum slightly in excess of £50,000. This sum consists of increases in total services of approximately £22,000 under the Agricultural, Educational and Medical Expenditure Heads, and of unavoidable additions to the expenditure under the heads Military, Miscellaneous Services, Pensions and Public Works Extraordinary of £8,000, £10,000, £7,000 and £5,000 respectively. It is evident that the disappearance of the Levy from the Revenue side of the Estimates, and the increase of the expenditure side by the total of the amounts detailed above will in 1937 more than absorb an additional amount to be derived from taxation and other sources equal to the estimated surplus for the current year.

5. In this connection the Treasurer, in a Memorandum on the subject of Sir Alan Pim's proposals to meet annual deficiencies by annual loans, has invited attention to various deferred commitments of this Government which invest the Annual Balance Sheet of the Colony with a false

appearance...

appearance of well-being. A copy of this Memorandum is enclosed for your information in this despatch.

6. In these circumstances I cannot agree with the statement contained in the initial sentence of the sixth paragraph of the Memorandum submitted by the Chairman of the Elected Members Organisation. In the first place it is not possible under existing legislation to remedy the anomalies and inequalities which are inherent therein. This cannot be done without a change of system. Secondly some additional taxation is necessary to meet the additional expenditure referred to above.

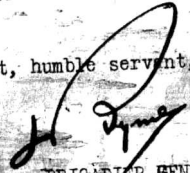
7. I am unable to accept the contention of the Elected Members that the proposed introduction of Income Tax has been unduly hurried. As you are aware the question of the re-imposition of this tax has been under consideration for the past six years, and it will be remembered that an officer of the Board of Inland Revenue was seconded for a period during 1933 to the East African Territories when, with his advice, an Income Tax Bill was framed and introduced into the Legislative Council of this Colony. This Bill passed its second reading but was not proceeded with in view of the acceptance by your predecessor of certain alternative revenue proposals, which have been given the full and fair trial your predecessor suggested they should have when he authorised their introduction.

8. The Income Tax Bill as now authorised by you for introduction in the Legislative Council differs only in a few points of detail from the previous Bill, which had been the subject of the fullest examination and amendment by a Select Committee of the Legislative Council in 1933. The measure cannot therefore be said to have been hurried either in its preparation or in its introduction.

I have the honour to be,

Sir,

Your most obedient, humble servant,



BRIGADIER-GENERAL.

G O V E R N O R .

ELECTED MEMBERS ORGANIZATION.

P.O. BOX 825.

NAIROBI.

KENYA COLONY.

PHONE: 2998.
TELEGRAMS: "SETTLEMENT".

REFERENCE NO.....

26th September, 1936

The Right Honourable,
The Secretary of State for the Colonies,
Through His Excellency the Governor of the Colony,
and Protectorate of Kenya.

Sir,

I have the honour to inform you that I have been requested by the European Elected Members of the Kenya Legislative Council to place before you their views on certain aspects of Sir Alan Pim's Report.

They, first of all, wish me to remind you that the European Unofficial Community asked for Sir Alan Pim to report on "the re-organisation of the machinery of Government on the lines proposed in Chapter 9 of the Report of the Select Committee on Economy".

I, as their representative, when first advised of the extension of Sir Alan Pim's terms of reference to include taxation, did in a letter to His Excellency, the Governor, repudiate any consequential responsibility for his conclusions in respect of such extended terms.

The Elected Members appreciate, however, the value of Sir Alan Pim's extended enquiry, and are prepared to give the most careful consideration to his arguments and recommendations.

The Elected Members agree with Sir Alan Pim that it is necessary to maintain budgetary equilibrium and that there are certain inequitable features in the emergency taxation measures, which are now in force. They wish, however, to point out that the budgetary position which was presented to Sir Alan Pim and which was the basis of the urgency element in his fiscal recommendations has, since his departure from the Colony, materially altered for the better, in that, whereas the estimated surplus for 1936 is shown in the Budget as approximately 10,000 (the figure upon which Sir Alan Pim relied), the Treasurer of the Colony informed the Standing Finance Committee at their last Meeting that the actual surplus would, in his opinion, be at least £100,000. In addition, the rapidly accumulating Railway net surplus, reflecting an increase in bulk and an improvement in the price of local products, assures a still further increase in revenue in the coming year.

In view of the above the Elected Members genuinely believe that budgetary equilibrium combined with the immediate remedy of anomalies and the cautious elimination of all emergency taxes without substitution can be achieved by increasing revenue from normal as distinct from

emergency sources. They submit, with confidence, that they have shewn that no justification exists for the hurried enforcement of the most controversial item of his general recommendations in isolation from other related items thereof, bearing in mind that the implementation of such a recommendation may not only prove unnecessary but will create serious difficulties which have been fully recognised by Sir Alan Pim, himself.

The Elected Members agree that Sir Alan Pim has made a case for a most careful investigation as to the advisability or otherwise of a change in the ratio of direct to indirect taxation and as to the measures required, and they are prepared to give every assistance in such an investigation, but most seriously urge that this investigation be conducted under the aegis of the incoming Governor, who will be responsible for the effectual carrying out of the recommendations resulting therefrom.

Finally, the Elected Members are insistent that the rehabilitation of the agrarian and interwoven interests must take precedence over the accumulation of large surplus balances.

I have the honour to be,

Sir,

Your humble and obedient servant,



CHAIRMAN.
ELECTED MEMBERS' ORGANIZATION.

2nd September, 1936.

The Hon'ble,
The Colonial Secretary,
NAIROBI.

THE PUBLIC ACCOUNTS - LOAN - BY DEBITMENT.
Ref: Your No. S/D/CONF. 4/9/7/1/3/1 of 24th Sept; 1936

Apart from objections in principle to the financing of deficits by loans - a procedure which the Standing Finance Committee on the 15th September expressed the view "that the proposals appeared to be unsound, unorthodox and contrary to the accepted financial policy of Kenya" - there are certain practical objections to the adoption of this course.

2. With all due deference and respect to Sir Alan Pim, I venture to suggest that he has failed to take sufficient account of the various expedients which have been adopted to ease the budgetary position during the recent period of emergency. I refer more particularly to

- (a) reduction of Sinking Fund payments to the statutory minimum of 4%;
- (b) postponement of full payment of arrears due by Government to the European and Asian Local Civil Service Provident Funds;
- (c) cessation of contributions to the Water Works Renewals Funds.

3. These measures of relief have received the approval of the Secretary of State and can be justified, so long as a period of acute financial stringency exists, but a sound financial policy would demand reversion to the orthodox method of making adequate provision for liabilities of this nature from revenue immediately the emergency has passed. So far from pressing for a more adequate provision for these liabilities, Sir Alan

Plan proposes that the indebtedness of Government should be increased by borrowing to meet deficits on year-to-year running expenses, a course of action which in all probability would result in the postponement for an indefinite period of a return to accepted practice and for an adequate legislative provision for meeting the liabilities of the Colony is concerned.

4. As regards the Sinking Fund contributions, the original contribution in respect of the 1921 Loan was 2% per cent, which, if the rate of interest had remained fixed at 4%, would have sufficed to redeem the loan in full. If the rate had risen to 6% per cent, the statutory minimum, a severe financial strain would have resulted. Sinking Funds in respect of other loans have received only 4% from the Colony. In this connection the following extracts from the Despatch No. 608 of the 26th October, 1923, (a copy of which was forwarded to me under cover of your D/FICE.17/Vol. XIII/121 of 20.10.33), are of interest:-

"It is in my opinion, a fundamental principle of sound finance to maintain full sinking funds on loans raised by the Colony; but in times of severe financial stringency like the present it is not always possible to put this principle into practice".....

"Steps should be taken as soon as the financial position warrants it to strengthen the sinking funds by making further contributions to the supplementary sinking fund from general revenue and I consider also that when this time arrives it would be prudent to increase the rate of contribution to the sinking fund of the 1923 Loan, which is the only loan in which the Railway Administration is not concerned."

7. Renewals Funds have been instituted in respect of Mombasa, Kisumu and Lakebays Water Supplies but contributions ceased owing to the necessity for budgetary economy, leaving a more or less negligible total of £3,801 on hand under the various Renewals Funds.

8. The annual charges necessary to cover the full cost of renewals would be £22,937 and the longer such provision is delayed the greater the annual charge must become unless the Secretary of State's instructions are disregarded and posterity is called upon to make good the cost of renewal when it becomes due, an alternative which is clearly repugnant to sound financial practice.

9. There is also the question as to whether it would not be sound policy to provide similarly for renewals of major plants in the Public Works Department.

10. A further factor which Sir Alan Pin appears to have ignored is that the Government has incurred positive liabilities to the extent of £110,440 and contingent liabilities of £13,500 to the Colonial Development Fund which are not at present shown in the Colony's Balance Sheet. The annuities by which these liabilities are to be discharged will throw a further burden on revenue in the near future.

11. It can be seen therefore that the present budget is already relieved to the extent of the greater part of the £100,000 envisaged by Sir Alan Pin.

12. In paragraphs 406/7 of the Financial Commissioner's Report it is suggested that the Colony might borrow annually "the sum required to assist the Colony either until either one or more of the loans becomes due for conversion, or until the finances are in such a position that relief is no longer required." These annual loans "should not be repayable until after the earliest redemption date of the more onerous of the present loans

and as wide a margin as possible should be allowed in the period of redemption." The loan for the first year "would presumably require interest to be paid at approximately 3% (with a 1% sinking fund); in the future years the interest rate might have to be higher in response to market changes."

13. Sir Alan Pin makes it clear that the amount to be borrowed each year would be decided by the Government with reference to the financial position at the time, but it should not exceed \$100,000 in any year. "The sum should be so calculated as to allow sufficient protection against the necessary delay in effecting the proposed repayments, the uncertainties in the receipts from Income Tax and from the Native Hut and Poll Tax with a small margin towards building up a much needed reserve." He goes on to say that "for the reasons previously stated the loans should be considered as intended to meet a temporary emergency and not as indicating financial instability on the part of the Colony."

14. It will be observed that Sir Alan suggests that the proposed new loans should be covered by a 1% Sinking Fund. Allowing for compound interest at the net rate of 4% over the period, it would take over 40 years for the sinking fund to accumulate to the amount of the loan. The terms of the recent (1936) loan may be taken as an indication of the present trend of the money market, and it may therefore be assumed that the period of a 3% loan would not be much longer than 25 years. It would therefore be necessary to follow one of three courses:-

- (a) to increase the Sinking Fund contributions from 1% to 2.4% making the total loan charge 5.4%;
- (b) to leave the sinking fund at 1% and finance the deficit on maturity of the loan from surplus balances;
- (c) to leave the sinking fund at 1% and to finance the deficit by new borrowing.

15. As regards (a) the prospect of a rise of 25,000 a year to the annual charge on account of Public Debt in respect of every 2100,000 loaned can hardly be regarded with complacency. (b) and (c) I think show a burden of future years and it has been shown in an earlier paragraph that the present temporary relief in regard to sinking funds is existing only so long as it is to expire sufficiently long to permit of...

16. In any event I submit that the present proposal to present effect the cost of future disbursements should be regarded as a course of sound policy. I believe that acceptance of the proposal would involve a loss of confidence by the investing public in the financial integrity of the Colony which would render the flotation of future loans at favourable rates a matter of extreme difficulty and that from the local point of view the temptation to disregard the vital relationship between revenue and expenditure would be almost overwhelming. Such a course of action would certainly ease the burden placed on the present generation and on the principal officers of Government now responsible for the preparation of the Colony's budget, but it would inevitably be at the expense of future generations. "That way damnation lies" was the comment of the Secretary of State when offered in 1933 a "solution" of the Colony's financial difficulties by way of devaluation; in my opinion the same remark would apply with equal force to the present proposal.

17. For the reasons given above, I am forced to recommend as strongly as I am able that there should be no major departure from orthodox practice so far as this Colony's Budget is concerned. I would, however, urge acceptance of the procedure indicated in succeeding paragraphs of this memorandum as a means of facilitating...

preparation of the estimates and at the same time of affording an opportunity of adjustment of the liabilities to which I have alluded, without undetery dislocation immediately financial circumstances permit.

18. It is of course a fact that during a period of decreasing trade and prosperity the balance of revenue and expenditure will tend to compare unfavourably with the Estimates. Conversely in a period of increasing trade and rising prosperity the year's surplus will tend to exceed the Estimate. As Estimates have to be prepared considerably in advance of the period to which they refer it is quite impossible for them to reflect in full either the improvement or the deterioration of the economic situation.

19. As has been shown, the budget as it stands to-day ignores certain definite liabilities and for the reasons given in the preceding paragraph, while at the end of the year the surplus may show that it would in fact have been possible to make some provision in this respect, the position at the time when estimates are framed will not allow of their inclusion without unbalancing the budget.

20. It must be emphasised that so long as this state of affairs continues, the paper surplus shown at the end of the year cannot be a true surplus.

21. It is suggested that this difficulty could be overcome and the financial position proportionately strengthened by adoption of the following procedure which would appear strictly to conform to sound business principles.

22. The discharge of certain of the liabilities mentioned (e.g. Provident Fund arrears and contributions to Water Works Renewals Funds) does not involve a cash

transaction but merely a debit to expenditure with a corresponding credit to a deposit account. An adjustment of this nature could therefore be made at any time before the accounts are finally closed in April of the following year. It would in consequence be possible to ascertain the actual surplus on the working of the year and then to allocate an appropriate portion to the discharge of these liabilities.

25. There can be no real advantage to the Colony in showing what is in fact a fictitious surplus and the procedure outlined above would not only avoid that but would also overcome the difficulty of presenting an unbalanced budget to the public.

24. I suggest therefore that the approval of the Secretary of State to this course be sought. The transaction would be covered by Special Warrant and when necessary by a resolution of Legislative Council. It would appear in the final Schedule of Additional Provision for the year and in the Supplementary Appropriation Ordinance.

25. I am confident that in present circumstances it should be possible to balance the budget of this Colony without having recourse either to burdensome taxation or to the transference to posterity of responsibilities proper to the present generation, it being understood that unnecessary remission of taxes will be avoided. If such an assumption is warranted, the Estimates will reflect a surplus, recourse to the proposed system of temporary borrowing will be unnecessary and acceptance of the proposals contained in paragraphs 21/4 of this memorandum will in due course eliminate the unsatisfactory features in the Colony's Budget to which I have alluded. If on the other hand expenditure is

allowed to outrun revenue, immediate temporary borrowing can be avoided by depletion of surplus balances, but rectification of the position in regard to Provident Funds or Water Works Renewals Funds will be out of the question. Surplus Balances have improved materially since Sir Alan Pim frayed his shirt, and although he stressed the importance of improving the liquid cash position it is highly improbable that he would have advocated temporary borrowing until all other resources had been exhausted. He appears to have envisaged the necessity for an extraordinary but quite temporary expedient to bridge the gap between estimation and realisation of revenue during the early stages of application of the new system of taxation. That necessity no longer exists as long as surplus balances are sufficient to bridge the gap and it would be obviously unwise to borrow money for this purpose if funds are already to hand. At the same time, I am in full agreement with Sir Alan Pim that the true cash position should be strengthened and am strongly of the opinion that this can only be achieved by estimating for a surplus in the Budget of the Colony.

s/d. G. Walsh.

TREASURER.

E / 40

Major Cavendish-Bentinck had an interview with the Secretary of State this morning and the following points emerged.

Handing the attached copy of a letter addressed by the Elected Members' Organisation to the Secretary of State but not yet formally communicated, Major Cavendish-Bentinck said that there was great anxiety resulting from remarks made by Sir Joseph Byrne and Mr. Wade that the intention of the Kenya Government was to push on with the implementation of the B.M. Report in so far as income tax was concerned but without regard to the other recommendations. The Secretary of State assured Major Cavendish-Bentinck that this was not the case and he was told to wait for the speech with which the Governor would introduce the proposals.

In regard to opening the door for the further co-operation of the unofficial community in framing Government policy, the Secretary of State also told Major Cavendish-Bentinck, in response to his enquiries, that he had every intention of introducing changes in the Executive Council which would have that effect. Major Cavendish-Bentinck expressed great pleasure at hearing this, and referred mildly to the income tax proposal by asking whether the Budget could not be put on a provisional basis and the income tax question be postponed till the new Governor arrived. The Secretary of State said that it was most important to get on with the consideration of the income tax proposal and that the matter could not be held up. The Order-in-Council in regard to the White Highlands was the next point touched upon,

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41

On more general matters Major Cavendish-Bentinck stressed the importance of publicity to East Africa, and mentioned certain negotiations he was having with the Daily Telegraph for a special East African Supplement after the Coronation. The Secretary of State warmly approved these ideas and said he would gladly help. Major Cavendish-Bentinck asked whether closer working between the five East African territories would be regarded with a favourable eye, and the Secretary of State replied that, provided no unifying super-structure of Government was in view, he was entirely in favour of their closest combination in their common interests. Finally Major Cavendish-Bentinck touched on the question of defence and asked whether financial assistance to Kenya would not be forthcoming from the Imperial Treasury. To this suggestion only a very guarded reply could be given, and it was explained that a good case would have to be made out.

Lord Bala Khan has seen

[Signature]
12.10.36

9/10
10/9.10.

ELECTED MEMBERS' ORGANISATION

September 26th, 1936.

The Right Honourable
The Secretary of State for the Colonies,
Through His Excellency the Governor of the Colony
and Protectorate of Kenya.

Sir,

I have the honour to inform you that I have been requested by the European Elected Members of the Kenya Legislative Council to place before you their views on certain aspects of Sir Alan Pim's Report.

They, first of all, wish me to remind you that the European Unofficial Community asked for Sir Alan Pim to report on "the re-organisation of the machinery of Government on the lines proposed in Chapter 9 of the Report of the Select Committee on Economy."

I, as their Representative, when first advised of the extension of Sir Alan Pim's terms of reference to include taxation, did in a letter to His Excellency, the Governor, repudiate any consequential responsibility for his conclusions in respect of such extended terms.

The Elected Members appreciate, however, the value of Sir Alan Pim's extended enquiry and are prepared to give the most careful consideration to his arguments and recommendations.

The Elected Members agree with Sir Alan Pim that it is necessary to maintain budgetary equilibrium and that there are certain inequitable features in the emergency taxation measures, which are now in force. They wish, however, to point out that the budgetary position which was presented to Sir Alan Pim and which was the basis of the urgency element in his fiscal recommendations has, since his departure from the Colony, materially altered for the better, in that, whereas the estimated surplus for 1936 is shown in the Budget as approximately £10,000 (the figure upon which Sir Alan Pim relied), the Treasurer of the Colony informed the Standing Finance Committee at their last meeting that the actual surplus would, in his opinion, be at least £100,000. In addition, the rapidly accumulating Railway net surplus, reflecting an increase in bulk and an improvement in the price of local products, assures a still further increase in revenue in the coming year.

In view of the above the Elected Members genuinely believe that budgetary equilibrium combined with the immediate remedy of anomalies and the cautious elimination of all emergency taxes without substitution can be achieved by increasing revenue from normal as distinct from emergency sources. They submit, with confidence, that they have shown that no justification exists for the hurried enforcement of the most controversial item of his general recommendations in isolation from other related items thereof, bearing in mind that the implementation of such a recommendation may not only prove unnecessary but will create serious difficulties which have been fully recognised by Sir Alan Pim, himself.

The Elected Members agree that Sir Alan Pim has made a case for a most careful investigation as to the advisability or otherwise of a change in the ratio of direct to indirect taxation and as to the measures required, and they are prepared to give every assistance in such an investigation, but most seriously urge that this investigation be conducted under the aegis of the incoming Governor, who will be responsible for the effectual carrying out of the recommendations resulting therefrom.

Finally, the Elected Members are insistent that the rehabilitation of the agrarian and interwoven interests must take precedence over the accumulation of large surplus balances.

I have the honour to be,

Sir,

Your humble and obedient Servant,

CHAIRMAN,
ELECTED MEMBERS' ORGANISATION.

COPY (FCE/RB)