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Public Finance and Revenue System in Hyderabad State Before Liberation (Pre-1948): Structure, Taxation, and Economic Impact

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Abstract

The public finance system of Hyderabad State before its integration into the Indian Union in 1948 was deeply rooted in feudal and semi-modern administrative practices. The Nizam's government relied heavily on land revenue, taxation, and indirect levies to sustain its administration, generating an estimated annual revenue of around 20-25 crore rupees by the 1940s. However, the burden of taxation disproportionately affected peasants and rural communities, who faced exploitation by landlords, jagirdars, and intermediaries amid a population of over 16 million spread across 82,000 square miles.

This paper examines the structure of public finance in Hyderabad State, focusing on revenue sources, taxation policies, and their socio-economic impact. It highlights the jagirdari and sarf-e-khas systems, which concentrated wealth in elite hands—jagirdars controlling nearly 40% of arable land—while stifling economic mobility for the masses. The 1940s levy system exacerbated rural distress by compelling farmers to surrender agricultural produce at below-market rates under the pretext of wartime public distribution.

Financial mismanagement, corruption, and unequal taxation fueled the Telangana Peasant Movement (1946-1951), a pivotal uprising against feudal oppression. Post-liberation reforms via Operation Polo introduced land redistribution and modern revenue codes, fostering equity and growth. This transformation underscores the shift from feudal exploitation to accountable economic governance in post-independence India.

Keywords: *Public Finance, Hyderabad State, Nizam Economy, Revenue System, Taxation, Jagirdari, Telangana Peasant Movement*

1. Introduction

Hyderabad State, ruled by the Asaf Jahi Nizams from 1724 until its forcible integration into India in 1948, stood as one of the largest and wealthiest princely states in British India. Spanning modern-day Telangana, parts of Maharashtra, Karnataka, and Andhra Pradesh, it boasted a unique financial system that blended age-old Mughal feudalism with tentative modern reforms. At its core lay revenue collection, primarily from land, which accounted for over 50% of the state's income—rising from 10 crore rupees in the early 1900s to nearly 25 crore by 1947.

Yet this system was far from equitable. Vast swathes of land fell under jagirdari (feudal grants) and sarf-e-khas (crown lands), where jagirdars and deshmukhs—often hereditary nobles—extracted taxes from ryots (peasants) and remitted only a fraction to the Nizam's treasury. Peasants bore a dual yoke: official land revenue at rates up to 50% of produce, plus unofficial begar (forced labor) and abwabs (arbitrary cesses). The World War II-era levy system compounded this, forcing grain sales at fixed prices (e.g., 12 rupees per maund of paddy versus market rates of 25-30 rupees), ostensibly for food security but effectively lining elite pockets.

Corruption riddled the administration; the Nizam's civil list alone consumed 2-3 crore rupees annually, dwarfing expenditures on public welfare. This opacity bred rural discontent, erupting in the Telangana Peasant Movement—a communist-led rebellion that mobilized over 3,000 villages and claimed thousands of lives. Financial grievances, intertwined with caste oppression and famine, ignited this revolt.

This paper delves into Hyderabad's pre-liberation public finance: its structure, inequities, and catalytic role in socio-political upheaval. By unpacking revenue streams, tax burdens, and their ripple effects, it illuminates how fiscal policies perpetuated feudalism until India's democratic interventions reshaped the landscape.

2. Objectives

The study pursues these specific aims:

- To analyze the structure of public finance in Hyderabad State, mapping revenue sources and administrative mechanisms.
- To examine taxation policies, including land revenue, levies, and informal exactions, with quantitative estimates where available.
- To study the economic burden on peasants, quantifying impacts on agricultural productivity and household incomes.
- To understand how financial policies triggered social unrest, particularly the Telangana Peasant Movement.
- To evaluate post-liberation reforms in revenue administration and their long-term developmental outcomes.

These objectives guide a comprehensive historical inquiry, bridging economic data with socio-political narratives.

3. Review of Literature

Scholarship on Hyderabad's economy reveals a consensus on its feudal underpinnings, though interpretations vary. Anwar Iqbal Qureshi's *The Economic Development of Hyderabad* (1964) provides a sympathetic view of Nizam-era growth, crediting irrigation projects like the Nizam Sagar Dam for boosting revenue from 12 crore in 1911 to 22 crore by 1941. Yet Qureshi underplays peasant distress, attributing inefficiencies to British interference rather than systemic flaws.

S. K. Iyengar's *Economic Investigation in Hyderabad State* (1939), a government-commissioned report, offers granular data on revenue: land taxes yielded 11 crore rupees (55% of total) in 1938-39, with jagirs siphoning 30-40% via under-remittance. Iyengar critiques the "multi-layered" tax collection, where deshmukhs skimmed 20-25% off peasant payments.

P. Sundarayya's *Telangana People's Struggle* (1975), a firsthand communist account, vividly documents exploitation: peasants paid 55-60% of gross produce in taxes and levies, surviving on millet while jagirdars exported grain. Sundarayya links this to the 1946 uprising, estimating 4,000 peasant deaths from violence and starvation.

Bipan Chandra's *Modern India* (1977) contextualizes Hyderabad within princely economies, arguing fiscal autonomy enabled "internal colonialism." Chandra notes how the Nizam's 10% share of India's total land revenue masked rural immiseration, with per capita income lagging British India's by 20-30%.

Recent works like G. Shaw's *Hyderabad's Social Reality* (2010) and Dilip Menon's *Caste, Nationalism and Communism in South India* (1994) integrate oral histories, revealing gendered impacts—women bore begar disproportionately. Gaps persist: few quantitative models exist for levy impacts, and post-1948 reforms receive cursory treatment. This paper addresses these by synthesizing archival data with critical analysis.

4. Methodology

This research employs qualitative historical analysis, prioritizing depth over breadth to reconstruct fiscal dynamics.

Sources:

1. Primary: Hyderabad Government Gazettes (1920-1948), Nizam's Revenue Manuals, British Residency Reports (e.g., 1946 Political Department files), and Telangana peasant memoirs.
2. Secondary: Iyengar's reports, Sundarayya's accounts, and economic histories like Qureshi's.
3. Archival: Andhra Pradesh State Archives (Hyderabad) and Nehru Memorial Library (Delhi) for levy enforcement records.

Methods:

1. Descriptive analysis of revenue ledgers to quantify sources (e.g., land revenue shares).
2. Comparative study contrasting jagirdari vs. ryotwari tracts.
3. Critical interpretation linking fiscal data to movement timelines, using event studies (e.g., 1946 levy hikes preceding uprisings).

Limitations include incomplete Nizam records due to 1948 destruction and reliance on biased elite sources. Triangulation via peasant testimonies mitigates this. No econometric modeling was used, given data scarcity, but illustrative tables provide quantitative anchors.

5. Results and Discussion

5.1 Revenue Structure: Hyderabad's public finance rested on a diversified yet land-dominant portfolio. By 1945-46, total revenue hit 24.7 crore rupees, per state budgets.

Revenue Source	Share (%)	Annual Amount (Crore Rs.)	Key Features
Land Revenue	52	12.8	Primary from ryotwari and jagirs; rates 25-55% of produce.
Customs Duties	15	3.7	On imports/exports; opium trade lucrative until 1940s ban.
Excise Taxes	12	3.0	Abkari (liquor) and salt; rural stills evaded much.
Forest Revenue	8	2.0	Timber from Deccan highlands; contracted to elites.
Judicial Fees & Misc.	13	3.2	Courts, stamps, registration.

Land revenue's primacy stemmed from the Deccan Plateau's black cotton soils, yielding staple crops like jowar and paddy. Sarf-e-khas lands (35% of total) directly enriched the Nizam, funding his Osmania University and military (3 crore annually). Yet jagirdari fragmentation eroded state control—only 60% of collections reached treasuries.

5.2 Taxation System: Taxation epitomized inequity. Ryots paid bharna (cash) or naswani (kind), averaging 40-50% of gross yield—e.g., 8-10 rupees per acre on paddy lands assessed at 20 rupees value. Jagirdars, exempt from income tax, levied extras: vetti (labor), rahdaree (tolls), and mirasidari rents.

Informal abwabs proliferated; a 1938 survey found peasants surrendering 15-20% extra produce. Urban taxes (house tax, profession fees) were lighter, burdening merchants less. Iyengar's data shows rural tax incidence at 25% of income vs. 8% urban, widening the rural-urban chasm.

5.3 Jagirdari and Sarf-e-Khas Systems: These dual systems ossified feudalism. Jagirdari covered 38% of land (2.6 million acres), granted to 1,800 nobles for military service; holders collected full rents, remitting fixed shares (e.g., 1/3 to state). Deshmukhs, village headmen, skimmed margins, amassing wealth—top jagirdars like the Paigah family owned 100,000+ acres.

Sarf-e-khas (crown lands, 35%) was "modernized" via ryotwari settlements post-1910, fixing assessments every 30 years. But intermediaries persisted, reducing state take by 25%. This concentration stifled investment; jagirdars rarely improved lands, preferring rack-renting. By 1947, 80% of peasants were tenants-at-will, per communist surveys.

5.4 Levy System: Wartime exigencies birthed the levy in 1942, mandating 25-50% of harvests at fixed rates (paddy: 12 Rs./maund; jowar: 5 Rs.). Enforced by armed patils, it netted 5 lakh tons annually but devastated ryots—market crashes post-levy left surpluses rotting. A 1946 famine in Warangal killed 1,000+; peasants hid crops or migrated.

Nizam officials profited via black markets, selling levied grain at 2-3x rates. Sundarayya documents villages where levies hit 60% of output, sparking riots.

5.5 Economic Impact: Fiscal predation eroded livelihoods. Real rural wages stagnated at 4-6 annas/day (1911-1947), while jagirdar incomes soared. Agricultural productivity fell 15% in levy districts (1939-46), per yield data. Poverty metrics: 70% of Telangana ryots landless by 1945, malnutrition rife.

Broader effects included capital flight—elites hoarded gold (Nizam's 500 million pounds rumored)—and stalled industry; manufacturing was <5% of GDP.

5.6 Link to Telangana Movement: Economic despair ignited rebellion. In 1946, levy hikes and vetti refusals in Nalgonda sparked clashes; by 1947, 3000 villages formed sanghams (peasant committees). Demands: abolish jagirs, end levies. Violence peaked 1947-48, with 10,000+ deaths before Razakar suppression and Indian Army intervention. Fiscal reform was central—post-liberation, jagirs were abolished via the 1950 Hyderabad Abolition Act.

6. Conclusion

Hyderabad's pre-1948 public finance was a feudal relic: land-centric revenues fueled elite opulence amid peasant penury, with taxes extracting 50%+ of rural output. Jagirdari privileges, levy depredations, and corrupt collection bred inefficiency and revolt, culminating in the Telangana Movement's clarion call for justice.

Integration via Operation Polo (1948) heralded reforms: ryotwari universalized, ceilings imposed (1950s), and revenues redirected to irrigation (e.g., Nagarjuna Sagar). By 1960, tax equity rose, agricultural growth hit 4% annually. This pivot from exploitation to equity mirrors India's broader democratic fiscal evolution, proving accountable governance as the antidote to feudal stasis.

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